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ABSTRACT

This publication contains papers by experts on various current problems in the field of education finance. The authors and their topics are: (1) Francis Keppel, "The Cost-Revenue Squeeze"; (2) Steven J. Weiss and Deborah Driscoll, "Comparative School Finance Data, New England States vs. California"; (3) Arthur E. Wise, "Inequities in the Benefits and Burdens of Public Education"; (4) Paul R. Dimond, "The Judicial Impact"; (5) Donald R. Dwight, "Methods for Achieving a More Equitable Educational Finance System"; (6) Robert T. Capeless, "Tax Equity and Educational Equality"; (7) Charles S. Benson, "Methods Already Tried in State-Local Support Systems"; (8) William G. Colman, "Alternative Federal Roles in School Finance"; (9) James B. Conant, "Full State Funding"; (10) A. Edward Simon, "Governor Milton J. Sahpp's Proposal for a National Education Trust Fund"; and (11) Francis Keppel, "The Continuing Responsibility of Educators." (Author/JF)

Financing Public Schools

A New England School Development Council Conference
held in cooperation with
Harvard Graduate School of Education and
Federal Reserve Bank of Boston

Cambridge, Massachusetts
January 1972

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January 7 and 8, 1972

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Foreword

The Federal Reserve Bank of Boston is pleased to publish these papers on "Financing Public Schools" because we believe that they offer valuable guidance for the understanding of many of our problems. The papers were presented on January 7 and 8, 1972 at a New England School Development Council conference held in cooperation with the Harvard Graduate School of Education and the Federal Reserve Bank of Boston.

The conference was a joint effort. The New England School Development Council obtained the speakers, and invited interested school administrators, school board members, local and state government officials, and leaders in public service. The Council provided those attending the conference with materials to supplement the talks. The Harvard Graduate School of Education provided all facilities for the conference, and made it possible for the twelfth Alfred Dexter Simpson Lecture to be part of the program.

We hope that the distribution of these papers will contribute to an increased public understanding of the issues and prove useful to those responsible for policy decisions.

Robert S. Ireland
Executive Secretary
New England School Development Council

Frank E. Morris
President
Federal Reserve Bank of Boston

Theodore R. Sizer
Dean,
Harvard Graduate School of Education

Cambridge, Massachusetts
January, 1972

The Issues

THE COST-REVENUE SQUEEZE

Francis Keppel

If I understand the tone that has been set for this conference, it is that we should look upon a variety of possibilities for the raising and distribution of funds for education. I will, since those presenting these possibilities are far better informed than I, quite deliberately consider some other aspects of the financial problem in order to put it into context.

For example, one of the questions frequently asked is, "How will the money be allocated equitably?" The context in which that question usually is placed suggests equitably for children, for learning. I will presume another context for that question – equitably for the taxpayer.

I have taken a set of statistics from recent publications of the Tax Foundation and the Office of Education. They must be, by political definition, conservative. Before looking at them, however, let us test our group mood. Are we optimistic or pessimistic about the 1970s? What management and control problems do we foresee in the next decade? Do we expect the cost-revenue squeeze to be a continuing fact of educational life? Or can we expect a loosening of that painful girdle?

There can be little doubt that today the local taxpayer feels painfully squeezed. The enthusiasm with which he votes "no" on local bond issues and school budgets whenever he gets a chance is a marked change from the mid-1960s. In those days he voted "yes" three times out of four. Today the school board that goes to the people's well comes back with an empty pail more often than not – and the pail tends to get smaller on each trip.

In more than a few districts the only solution to shortage of revenue has been to close down the schools for a while, a process which probably makes the voter-parents still angrier at the schools,

Mr. Keppel, Chairman of the Board of the General Learning Corporation, was Dean of the Graduate School of Education, Harvard University, 1948-62, U.S. Commissioner of Education, 1962-66, and former Assistant Secretary of Health, Education, and Welfare (for Education).

even if it pleases many of the non-voting students. In New York City thousands of teachers were "laid off" because of the squeeze between built-in escalating costs and inadequate tax revenues. (In all candor, one must report that in this case at least it is hard to tell whether the enforced economy has made much difference in the performance of the schools and the learning of the pupils.) In Philadelphia, the city of not-so-brotherly love, ex-Superintendent Mark Shedd tested the local value system and found that athletic programs apparently are exempt from economy, but nothing else is. The state and local taxpayer, in short, is thrashing around a good deal in order to get out of his girdle or cost-revenue squeeze. It does not help him much to remind him that the reason for his discomfort is not necessarily a bad girdle but rather that he has grown and he has not changed his girdle size.

The most fashionable explanation for the trouble is that a taxpayers' revolt is underway – that the already overburdened middle class and working class will no longer stand for open-ended government expenditure. A cursory analysis of the California school revenue election shows that the traditional patterns of support and opposition to school funding are intact. Parents of school age children favor increased outlays; non-parents do not. In California, at least, this division cuts across religious lines with Catholic parents supporting money for public schools in the same proportion as their Protestant and Jewish neighbors. Those with the most to gain from good schools, the black and the poor, endorse increases overwhelmingly. The taxpayer revolt theory is attractive because schools are one thing about which voters are occasionally able to express themselves directly. How, we may ask, would social welfare programs or defense expenditures fare if they faced public referenda? On this theory outraged taxpayers are simply addressing themselves to the most visible target. That is, the schools bear the brunt of the public frustration.

It is equally reasonable to believe, perhaps, that the public and thus the legislatures are tightening the purse strings because the schools are no longer credible, are not doing their job well, and, therefore, do not deserve further support. Legislators who voted more money 5 or 10 years ago are still waiting for the good education the educators promised and did not deliver. So why throw good money after bad? Clearly the argument then is that it is not solely a case of the local taxpayer hitting education, the nearest target, but that it is against a background of a crisis of confidence as well.

How did the taxpayer get into this crisis in the first place? Again let me quote from a conservative source, President Nixon's Message on General Revenue Sharing:

> In the last quarter-century, State and local expenses have increased twelvefold, from a mere $11 billion in 1946 to an estimated $132 billion in 1970. In the same time, our Gross National Product, our personal spending, and even spending by the Federal Government have not climbed at even one-third that rate. How have the states and localities met these growing demands? They have not met them. . . . Some authorities estimated that normal revenue growth will fall some $10 billion short of outlays in the next year alone.[1]

The reason offered as to why the state-local revenues grow so slowly: the usurpation of the most elastic revenue source, the personal income tax, by the Federal government.

The schools and colleges, of course, are a major factor in the twelvefold increase in state and local expenditures. By far the largest category of expenditure, education has inevitably become a center of attention and concern. Will it continue in this situation throughout the decade? The purpose of this conference is to consider strategy and tactics in financing schools. It makes a good deal of difference whether we foresee heavy weather ahead, and for how long, since this estimate will surely help us to chart our course.

The table makes it clear that two quite different trends demand attention. For the first time since 1959, and in fact since 1949, the school age population is decreasing. It will increase a little in the first few years of the coming decade but it will go down to 50.3 million by 1979. Now this is a reasonably solid estimate based on the 1970 census. Most of the children counted in that figure have been born. You may have noticed that more recent analysis of the birth rate figures would suggest, if anything, that this prediction is too high. Many of us here have been living through a period in which our principal argument for more money was an unassailable statement to the taxpayer and to government sources: "Count them. Count their little noses. What do you expect us to do? You must give us buildings, you must give us more room!" Please note the trend in the top line of the table. This seems to me a fundamental change.

[1]U.S. Department of the Treasury, *General Revenue Sharing: The President's Message*, February, 1971, p. 8.

SCHOOL AGE POPULATION, STATE AND LOCAL TAX REVENUES AND EXPENDITURES FOR EDUCATION, 1959 and 1969, WITH PROJECTIONS FOR 1975 and 1979

	1959	1969	1975 (Projected)	1979 (Projected)
School Age Population (millions) (Ages 5-17)	43.2	52.8	n.a.	50.3
State and Local Tax Revenues (billions of dollars)	$ 32.4	$76.7	$90.2	n.a.
Total Expenditure for All Elementary and Secondary Education (billions of dollars)	$ 17.9 (current dollars)	$45.4 (current dollars)	n.a.	$ 55.2 (1969-70 dollars)
Current Expenditures per Pupil in Public Elementary and Secondary Schools (dollars)	$375 (current dollars)	$783 (current dollars)	n.a.	$986 (1969-70 dollars)

n.a. Not Available

Sources: State and local tax revenues and projections – Tax Foundation.
Other data – U.S. Office of Education, *Statistics of Trends in Education, 1956-60 to 1979-80*, March 1971.

Total expenditures for elementary and secondary schools increased, as you can see, at a whopping rate from $17.9 billion in 1959 to $45.4 billion in 1969. That was, of course, associated with a considerable increase in the number of pupils. However, the Office of Education projects a further increase of about 20 percent in expenditures, in constant 1969-70 dollars, between 1969 and 1975. The assumptions on which that projection was made by the Office of Education, which you will find in its publications, are not from my point of view unreasonable. But I would remind you that population goes down and expenditures up. Look at the results of that: current expenditure per pupil, $375 in 1959, $783 in 1969, (and by the way, there is some obvious change in dollar value between those two), and in 1969-70 constant dollars $986 per pupil has been projected for 1979. I do not find that an easy message to take to the state legislature.

The Tax Foundation's data show that state and local revenues totaled $32.4 billion in 1959, (these of course are not 1969-70 dollars), $76.7 billion in 1969, and a projected $90.2 billion in 1975. Therefore, two major trends again leap to the attention: the schools will have fewer pupils to teach in 1979 and governments will have more money to spend. One might assume that we can plan, with shouts of joy, to burn the girdle. But note the prediction of costs of schooling in the form of per pupil expenditures. It looks as though we may get fatter at a lively rate. Perhaps we had better be cautious before we join the free form fashions.

In any case, it is clear that educators can have little control over the numbers of pupils or the rate of growth of the economy. The one area they *can* control (or have control forced on them) is cost and quality of performance. As I read these figures, we had better plan, at least for the first part of the decade of the 1970s, to pay attention to cost control and quality improvements even as we consider various ways to raise and distribute revenues. The predictions for 1979 can be changed. I would suggest to you that an open mind would consider the possibility that we can get better results with the same or less investment, not just with more investment.

COMPARATIVE SCHOOL FINANCE DATA, NEW ENGLAND STATES vs. CALIFORNIA

Steven J. Weiss and Deborah Driscoll

The state Supreme Court in California and Federal courts in Minnesota and Texas have found that programs for financing public schools in those states are unconstitutional. In the wake of these decisions, state legislatures and interested citizens across the nation have good reason to re-examine their own education finance systems. Dozens of new lawsuits are in process in all parts of the country, including New England.

The courts recognized that unacceptable intra-state variations in educational quality and in local school tax burden stem essentially from over-reliance on the local property tax for financing schools. These disparities are the inevitable result of the existing combination of large inter-district differences in the school tax base and state school aid programs that do not achieve significant equalization. The courts prescribed no specific remedies; they simply held that a school finance system which effectively ties educational spending to local wealth (i.e. the local property tax base in practice) is invalid.[1]

The close ties between local property values and disparities in district school spending levels and tax rates have previously been documented for the New England states, together with a critical analysis of existing school finance systems.[2] The purpose of this brief paper is to present some summary data comparing school finance disparities and state school aid programs in the New England states and California.

Mr. Weiss is an Assistant Vice President and Economist, Federal Reserve Bank of Boston.
Miss Driscoll is a Research Assistant, Federal Reserve Bank of Boston.

[1]The winning constitutional standard that "the quality of public education may not be a function of wealth other than the wealth of the state as a whole," was originally proposed by John E. Coons, William H. Clune III, and Stephen D. Sugarman, "Educational Opportunity: A Workable Constitutional Test for State Financial Structures," *California Law Review*, Vol. 57 (April, 1969), pp. 338-70, and *Private Wealth and Public Education*, Harvard University Press, Cambridge, 1970.

[2]Steven J. Weiss, *Existing Disparities in Public School Finance and Proposals for Reform*, pp. 10-42, Research Report No. 46, Federal Reserve Bank of Boston, February, 1970.

Statistical Profile of Disparities

Statistics on school tax rates, expenditures per pupil, state aid per pupil, and local "fiscal capacity" per pupil (adjusted per pupil local tax base) were compiled for every school district in the New England states and California.[3] In order to facilitate comparisons among the states, the individual districts within each state were arranged in order from "poorest" to "wealthiest" according to local "fiscal capacity" per pupil, and separated into decile groups.[4] Then, for every decile group, the actual median value for each statistic was identified and expressed as a *relative* value by comparing it to the median value for the state as a whole. The relative figures provide index ratios, which are most useful for comparative purposes. In the following pages these statistics are presented for each state. All the actual and relative figures are given in tabular form, and the relative figures on school tax rates and spending levels are charted.

The state-by-state data reveal that disparities are as pervasive among the New England states as in California, and, with minor exceptions, at least as severe in New England. The fundamental cause of inequities in school finance is the variation in local fiscal capacity, or the available local tax base. The extent of this variation in California is indicated by the fact that there is a 6-to-1 ratio between median "modified assessed valuation" per pupil in the "wealthiest" districts (10th decile group) and in the "poorest" districts (1st decile group). The comparable ratios are even greater for four of the six New England states (Maine, Massachusetts, New Hampshire, and Vermont), reaching almost 17-to-1 in Maine. Similar comparisons of disparities in school tax rates and expenditures per pupil can also be made by using data in the tables. The figures suggest, for example, that differences in per pupil expenditure among school districts are comparable to those in California and even greater in Connecticut and Maine. Compared with California, tax rate inequities appear even more severe in every New England state except Rhode Island.

The strong statistical relationship between differences in tax base and variations in local school expenditures per pupil and school tax rates is indicated by the simple correlations between district "fiscal capacity" per pupil and per pupil expenditures and school tax rates, respectively, as shown in Table VIII.

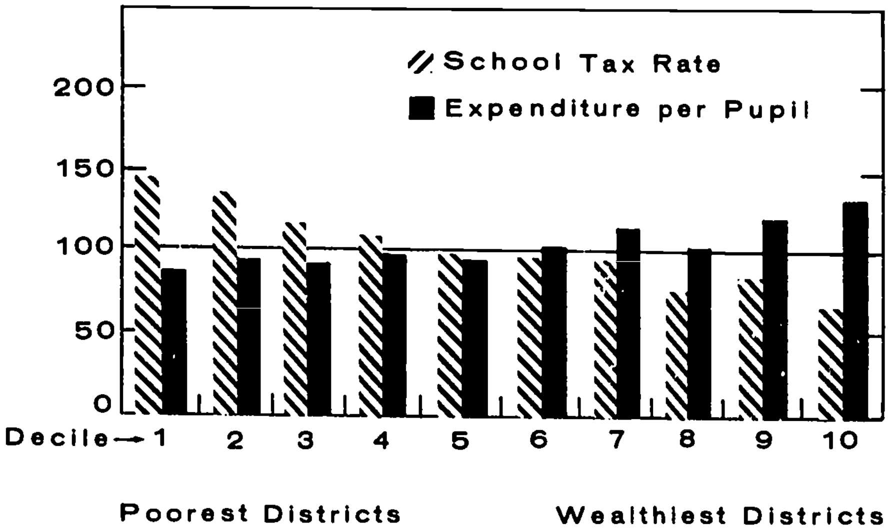
[3]Sources, definitions, and methods of deriving the figures are described in the Appendix.

[4]Except in the case of Rhode Island, where the small number of school districts required grouping by quintiles rather than by deciles.

Chart 1

Disparities in Public School Finance, Connecticut, 1969-70

Relative Values of School Tax Rates and Expenditure per Pupil by Decile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table I

TABLE I

STATISTICAL DATA* FOR CONNECTICUT, 1969-70

Decile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	22.77	656.39	234.96	17.96
2	21.20	708.10	233.24	21.76
3	18.10	702.41	228.22	24.74
4	16.86	733.10	223.28	27.97
5	15.46	732.29	223.32	32.02
6	15.12	765.61	227.82	34.98
7	15.09	852.81	232.62	39.79
8	11.98	777.03	228.93	44.69
9	12.88	912.76	231.01	50.72
10	10.56	1,017.65	231.34	66.36
State Median	15.65	760.28	229.52	33.60
		RELATIVE FIGURES**		
1	145.5	86.3	102.4	53.5
2	135.5	93.1	101.6	64.8
3	115.7	92.4	99.4	73.6
4	107.7	96.4	97.3	83.2
5	98.8	96.3	97.3	95.3
6	96.6	100.7	99.3	104.1
7	96.4	112.2	101.4	118.4
8	76.5	102.2	99.7	133.0
9	82.3	120.1	100.7	151.0
10	67.5	133.9	100.8	197.5

*The figures are median values for decile groups arranged according to the state's measure of district fiscal capacity per pupil based on "net grand list adjusted ratio of assessments to fair market value."

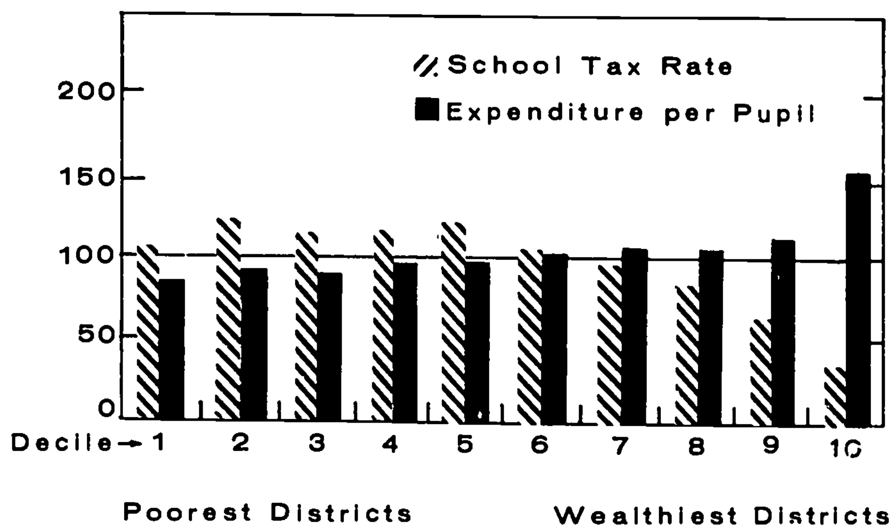
**Ratios of decile medians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

Chart 2

Disparities in Public School Finance, Maine, 1969-70

Relative Values of School Tax Rates and Expenditure per Pupil by Decile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table II

TABLE II

STATISTICAL DATA* FOR MAINE, 1969-70

Decile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	41.00	514.48	410.89	4.59
2	47.15	555.42	325.94	6.31
3	44.30	539.93	269.68	8.26
4	45.55	572.10	226.88	9.53
5	46.50	590.98	204.76	11.27
6	39.40	603.00	157.56	13.15
7	37.80	615.98	130.92	17.22
8	31.80	625.89	106.68	21.94
9	24.65	689.91	84.20	31.94
10	13.40	932.91	122.82	76.77
State Median	38.25	601.94	197.95	12.23
	RELATIVE FIGURES**			
1	107.2	85.5	207.6	37.5
2	123.3	92.3	164.6	51.5
3	115.8	89.7	136.2	67.5
4	119.1	95.0	114.6	77.9
5	121.6	98.2	103.4	92.1
6	103.0	100.2	79.6	107.5
7	98.8	102.3	66.1	140.7
8	83.1	104.0	53.9	179.3
9	64.4	114.6	42.5	261.1
10	35.0	155.0	62.0	627.6

*The figures are median values for decile groups arranged according to the state's measure of district fiscal capacity per pupil based on "state valuation."

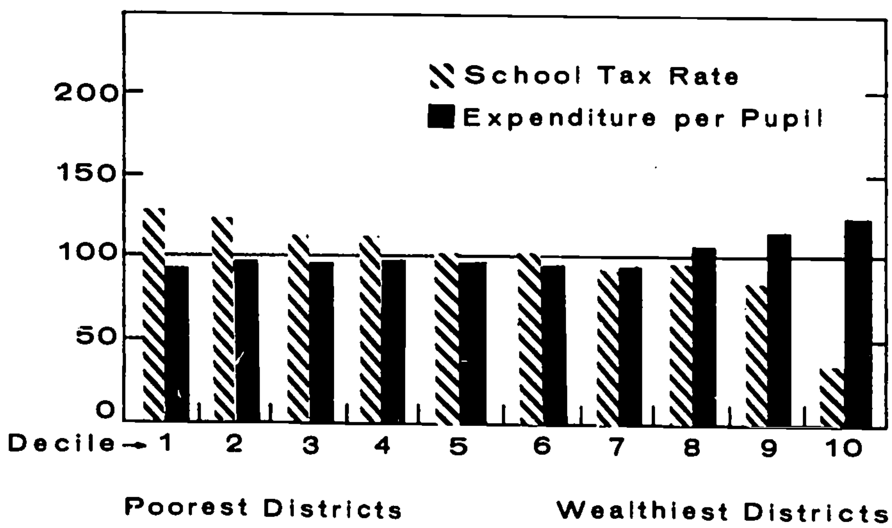
**Ratios of decile madians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

Chart 3

Disparities in Public School Finance, Massachusetts, 1969-70

Relative Values of School Tax Rates and Expenditure per Pupil by Decile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table III

TABLE III

STATISTICAL DATA* FOR MASSACHUSETTS, 1969-70

Decile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	27.28	706.22	247.24	15.60
2	26.11	740.59	249.08	17.86
3	23.70	728.71	229.52	19.51
4	23.64	761.48	231.98	21.34
5	21.36	742.58	215.08	23.10
6	21.54	738.91	178.58	25.97
7	19.27	743.28	170.06	28.62
8	20.02	807.62	161.82	32.42
9	17.26	866.02	124.17	40.98
10	7.61	944.42	133.37	99.70
State Median	21.19	762.90	200.57	24.57
		RELATIVE FIGURES**		
1	128.7	92.6	123.3	63.5
2	123.2	97.1	124.2	72.6
3	111.8	95.5	114.4	79.4
4	111.6	99.8	115.7	86.8
5	100.8	97.3	107.2	94.0
6	101.7	96.8	89.0	105.7
7	90.9	97.4	84.8	116.5
8	94.5	105.9	80.7	131.9
9	81.4	113.5	61.9	166.8
10	35.9	123.8	66.5	405.7

*The figures are median values for decile groups arranged according to the state's measure of district fiscal capacity per pupil based on "equalized valuation."

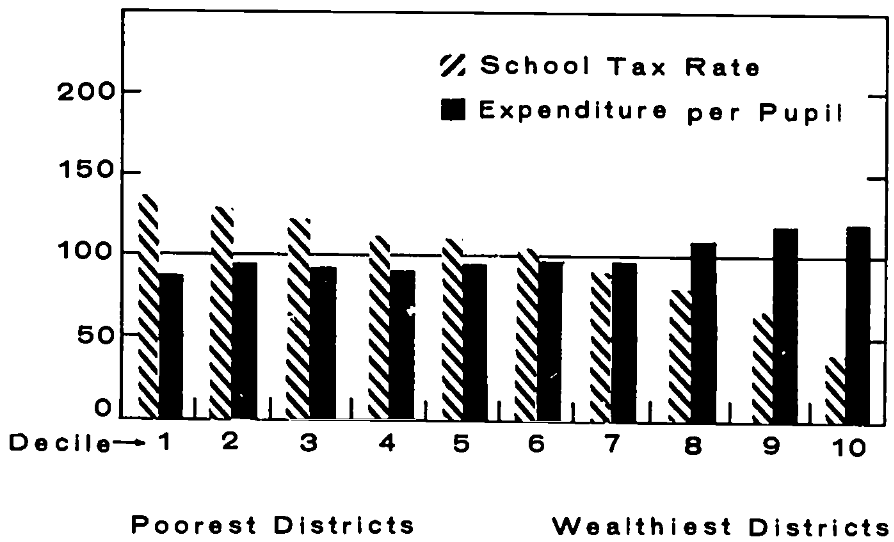
**Ratios of decile medians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

Chart 4

Disparities in Public School Finance, New Hampshire, 1969-70

Relative Values of School Tax Rates and Expenditure per Pupil by Decile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table IV

TABLE IV

STATIS, .CAL DATA* FOR NEW HAMPSHIRE, 1969-70

Decile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	28.28	625.46	141.82	16.73
2	26.58	677.48	103.63	20.22
3	25.06	657.42	71.24	21.84
4	23.24	645.14	51.07	24.87
5	23.21	684.97	34.15	27.88
6	21.21	715.62	6.00	31.97
7	18.56	708.20	5.89	36.98
8	16.21	798.34	5.93	46.32
9	13.30	858.42	6.11	64.20
10	8.05	866.41	6.01	118.57
State Median	20.48	724.64	7.46	29.82
		RELATIVE FIGURES**		
1	138.1	86.3	1,901.1	56.1
2	129.8	93.5	1,389.1	67.8
3	122.4	90.7	955.0	73.2
4	113.5	89.0	684.6	83.4
5	113.3	94.5	457.8	93.5
6	103.6	98.8	80.4	107.2
7	90.6	97.7	79.0	124.0
8	79.2	110.2	79.5	155.3
9	64.9	118.5	81.9	215.3
10	39.3	119.6	80.6	397.6

*The figures are median values for decile groups arranged according to the state's measure of district fiscal capacity per pupil based on "equalized valuation."

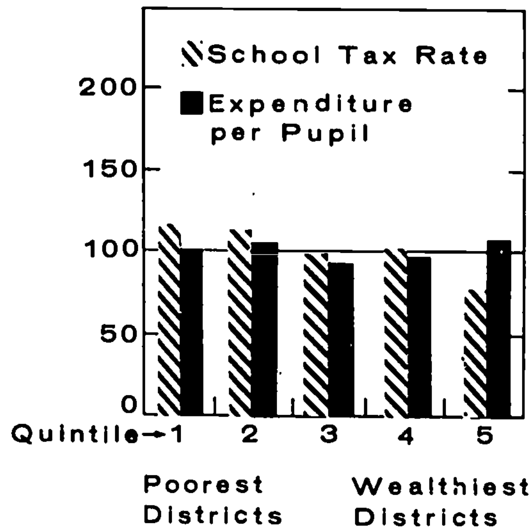
**Ratios of decile medians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

Chart 5

Disparities in Public School Finance, Rhode Island, 1969-70

Relative Vaues of School Tax Rates and Expenditure per Pupil by Quintile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table V

TABLE V

STATISTICAL DATA* FOR RHODE ISLAND, 1969-70

Quintile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	17.41	740.51	344.19	15.22
2	16.81	776.29	310.94	17.54
3	14.89	687.23	220.26	19.90
4	15.22	718.83	219.20	21.56
5	11.68	798.63	240.75	28.49
State Median	15.03	740.51	260.86	19.90
		RELATIVE FIGURES**		
1	115.8	100.0	131.9	76.5
2	111.8	104.8	119.2	88.1
3	99.1	92.8	84.4	100.0
4	101.3	97.1	84.0	108.3
5	77.7	107.8	92.3	143.1

*The figures are median values for quintile groups arranged according to the state's measure of district fiscal capacity per pupil based on "equalized weighted assessed valuation."

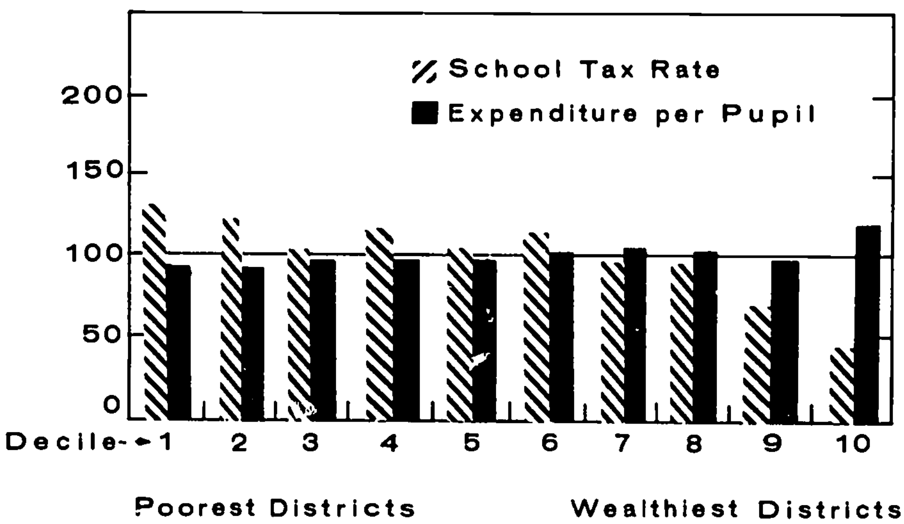
**Ratios of quintile medians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

Chart 6

Disparities in Public School Finance, Vermont, 1969-70

Relative Values of School Tax Rates and Expenditure per Pupil by Decile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table VI

TABLE VI

STATISTICAL DATA* FOR VERMONT, 1969-70

Decile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	17.90	638.13	346.09	16.26
2	16.39	637.16	299.57	20.77
3	13.96	674.70	331.27	23.95
4	15.84	676.67	277.99	26.24
5	14.06	673.85	264.54	29.06
6	15.48	705.22	213.05	32.89
7	12.96	722.01	197.53	36.54
8	13.00	711.30	119.51	44.88
9	9.31	689.29	86.20	65.63
10	6.26	820.1[illegible]	91.50	122.81
State Median	13.61	691.22	231.40	30.63
		RELATIVE FIGURES**		
1	131.5	92.3	150.9	53.1
2	120.4	92.2	129.5	67.8
3	102.6	97.6	143.2	78.2
4	116.4	97.9	120.1	85.7
5	103.3	97.5	114.3	94.9
6	113.7	102.0	92.1	107.4
7	95.2	104.5	85.4	119.3
8	95.5	102.9	51.6	146.5
9	68.4	99.7	37.3	214.3
10	46.0	118.6	39.5	400.9

*The figures are median values for decile groups arranged according to the state's measure of district fiscal capacity per pupil based on "equalized grand list."

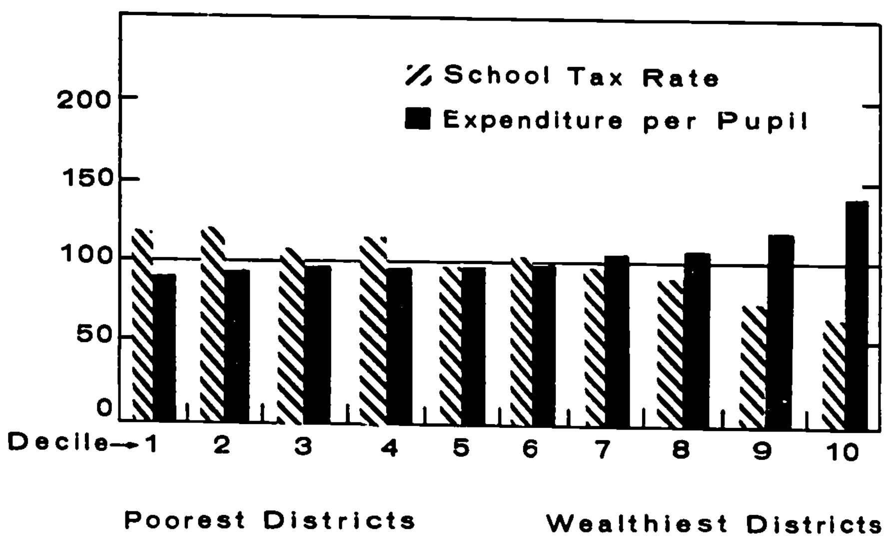
**Ratios of decile medians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

Chart 7

Disparities in Public School Finance, California, 1969-70

Relative Values of School Tax Rates and Expenditure per Pupil by Decile Groups According to District Fiscal Capacity per Pupil (Index of 100=state median)



Source: Table VII

TABLE VII

STATISTICAL DATA* FOR CALIFORNIA, 1969-70

Decile	School Tax Rate (mills)	Expenditure per Pupil ($)	State Aid per Pupil ($)	Fiscal Capacity per Pupil ($ thous.)
1	41.98	671.91	404.04	5.79
2	42.84	693.39	362.60	7.29
3	38.61	704.41	325.73	8.87
4	38.90	703.36	298.50	10.31
5	34.39	711.65	278.40	11.53
6	36.58	734.90	255.44	12.69
7	34.08	766.92	235.37	14.76
8	32.05	789.17	210.28	16.89
9	26 40	890.81	193.53	22.73
10	23.60	1,039.21	189.77	35.37
State Median	35.25	737.44	276.65	12.06
		RELATIVE FIGURES**		
1	119.1	91.1	146.1	48.0
2	121.5	94.0	131.1	60.4
3	109.5	95.5	117.7	73.5
4	110.4	95.4	107.9	85.5
5	97.6	96.5	100.6	95.5
6	103.8	99.7	92.3	105.2
7	96.7	104.0	85.1	122.3
8	90.9	107.0	76.0	140.0
9	74.9	120.8	70.0	188.4
10	67.0	140.9	68.6	293.2

*The figures are median values for decile groups arranged according to the state's measure of district fiscal capacity per pupil based on "modified assessed valuation."

**Ratios of decile medians to the medians for the state as a whole.

Source: See the Appendix to this paper for sources, definitions, and methods of deriving the statistics.

TABLE VIII

CORRELATIONS BETWEEN SCHOOL DISTRICT FISCAL CAPACITY and EXPENDITURES and TAX RATES THE NEW ENGLAND STATES and CALIFORNIA

State	Number of Districts in Sample	Simple Correlations: Per Pupil "Fiscal Capacity" and per Pupil Expenditure	Per Pupil "Fiscal Capacity" and School Tax Rate*
Connecticut	161	+.62	+.79
Maine	274	+.48	+.87
Massachusetts	351	+.62	+.92
New Hampshire	234	+.57	+.91
Rhode Island	38	+.65	+.78
Vermont	252	+.33	+.93
California	356	+.82	+.68

*Although local per pupil "fiscal capacity" and school tax rates are negatively related, these correlations all have positive signs because the tax rate variable was entered in reciprocal form for the purpose of calculating the correlation coefficients. This was done because the data suggested an inverse curvilinear "scatter," which is approximated better by the reciprocal form than by a direct linear correlation. Using the direct linear relationship the coefficients ranged from -.41 in Maine to -.73 in New Hampshire.

Source: See the Appendix for sources, definitions, and methods of deriving the statistics.

State School Aid Programs:
Design, Level of Support, and Impact

The disparities described above exist in spite of the ostensible intent of state legislatures to provide school aid in a way that will tend to equalize spending per pupil among districts and reduce differences in local school tax rates. Good intentions and rhetoric about equal educational opportunity are meaningless without a program of state aid for schools capable of achieving substantial equalization. There are two necessary ingredients for such a program: (1) a system designed to allocate school funds in a significantly equalizing manner, and (2) a large enough financial commitment by the state to make the system work.

Table IX provides indicators of some important *design* features of school aid programs in New England and California (columns 1-3). First, column 1 shows the number of different school aid programs in each state. It may be argued that it is better to have relatively few programs if the objective is to focus state aid on areas of greatest need. No New England state has nearly as many different aid programs as California, and Rhode Island and Vermont appear best by this measure. Second, a state school aid program is more likely to have equalizing effects as the proportion of total available funds allocated for general operating purposes increases (column 2). California appears best by this measure, followed closely by Rhode Island, while Connecticut and New Hampshire rank at the bottom of the list.

The most important single index of program design is probably the proportion of total school aid funds distributed by methods that are *intended* to have equalizing effects (column 3). However, equalizing intent too often falls victim to faulty program design, frequently the result of political compromise.[5] Therefore even this measure is not entirely reliable. For example, Massachusetts' major school aid program starts with a reasonably good basic design, but constraints on the school aid formula seriously reduce the otherwise possible equalizing effects. Connecticut is the only state covered in this study that distributes *none* of its school aid funds by methods explicitly intended to have equalizing effects. Connecticut's school aid program is probably the worst in the nation in terms of basic design. Among

[5]See Steven J. Weiss, "The Need for Change in State Public School Finance Systems," *New England Economic Review*, Federal Reserve Bank of Boston, January/February, 1970, pp. 11-17.

TABLE IX

STATISTICS ON STATE SCHOOL AID PROGRAMS THE NEW ENGLAND STATES and CALIFORNIA

	(1) Number of School Aid Programs	(2) % of Funds Allocated for General Purpose Use	(3) % of Funds Distributed by Equalizing Methods	(4) State Share (%) of Non-Federal Costs (1970-71)	(5) Simple Correlation Between Local per Pupil "Fiscal Capacity" & State Aid
Connecticut	12	51	0	34	+.06
Maine	10	63	88	35	-.16
Massachusetts	8	69	78	23	-.01
New Hampshire	8	33	33	10	-.47
Rhode Island	6	79	88	41	-.01
Vermont	5	73	73	35	-.43
New England Average	..	..	..	28	..
California	21	82	36	40	-.61
U.S. Average	..	..	..	44	..

Sources and Notes: Cols. (1) & (2) New England data are from David M. Hersey and Robert S. Ireland, "Supporting Public Schools in New England," (Newton, Mass.: New England School Development Council, January 1972), covering the school year 1970-71 for all states except New Hampshire (1971-72). California data are from Thomas L. Johns (compiler and ed.), *Public School Finance Programs, 1968-69*, U.S. Office of Education (Washington: 1969), OE-22002-69, covering school year 1968-69.

Col. (3) is based on the authors' interpretation of description and statistics in the source material for Cols. (1) & (2).

Col. (4) National Education Association, *Estimates of School Statistics, 1970-71*, Research Report 1970 - R 15, 1970.

Col. (5) is derived from data collected for this study. See the Appendix for sources, definitions, and derivations.

the other states studied, California and New Hampshire rank at the bottom of the list by this measure. Although the other four states look distinctly better, it is important to bear in mind the serious differences between equalization intent and actual effect.

In addition to aid programs in support of basic operations, every one of the seven states has categorical aid programs designed to provide partial or full funding for special purposes. These programs can aid equalization to the extent that they help districts pay for special needs that arise because of factors beyond the individual school district's control. These programs are not generally a large part of total school aid, however, and only very rarely are categorical aid funds distributed by a method that takes account of the district's ability to pay for schools.

No matter how well a state school aid program is designed, equalization will not be attained unless the state makes a large enough commitment of funds (including funds that may be raised through a statewide property tax and redistributed). Studies undertaken for the National Educational Finance Project have suggested that, regardless of program design, significant equalization is unlikely unless the state commitment totals at least 60 percent of public school costs. Column 4 of the table shows that neither California nor any one of the New England states approaches this level of state support or even exceeds the 1970-71 national average of 44 percent. Rhode Island and California rank highest among the states studied, and New Hampshire, with only 10 percent state support, ranks lowest in the Nation.

Column 5 shows the simple correlation between local per pupil "fiscal capacity" and state aid. (As a rough benchmark for evaluating these results, a perfectly equalizing aid program should yield a perfect negative correlation of -1.00 between these variables.) California's system appears "best" by this rather crude measure. Among the New England states, overall equalizing tendencies appear to be significant only in New Hampshire and Vermont, and even then the tendencies are not very pronounced. Rhode Island and New Hampshire provide an instructive comparison. According to all previous criteria, Rhode Island's program appears superior to New Hampshire's. Yet, the Rhode Island program involves a lot of wastage – significant amounts of state funds are allocated to relatively wealthy districts, as shown in Table V above. New Hampshire's program is deficient because the total state share of school support is very small, and only a small proportion of the total state funds is allocated to general purpose aid. Even so, the small amount of funds

available for general aid is well directed, i.e., channeled to districts with the greatest need. The wealthier New Hampshire districts get only very modest amounts of aid per pupil (see Table IV); in fact, fewer than half of the school districts in the state receive any aid at all under the basic foundation program.

School aid programs do not exist in a vacuum. While this statement may seem obvious, its full implications are important and often not appreciated. Substantial state aid for non-educational services is a crucial complement to any equalizing school aid. Without substantial general state aid to localities, equalization of school spending can never be fully effective unless there is *no* leeway for expenditures for education from locally raised funds. Ideally, general state aid should be fully equalizing, and the state should provide school and non-school aid in amounts that are proportional to the school and non-school shares of local expenditures. By adopting an "equalizing municipal grant" program, Massachusetts has made an important first step toward real equalization in this broader perspective.

Conclusion

School finance disparities in the six New England states are sufficiently similar to those prevailing in California to raise the threat of successful suits against the New England public school finance systems on constitutional grounds. Similarly, the very design of some of the New England systems may be open to challenge. The California court demonstrated a sophisticated understanding of how school finance systems actually work. Even though the New England state systems are different from California's, none is free of damaging defects.

APPENDIX: Sources, Definitions, and Methods of Deriving Figures

GENERAL NOTES:

1. The equalized school tax rate figures were *derived* for each state except New Hampshire and Maine, where state figures were used. Effective tax rates are calculated by subtracting state and Federal aid from total current expenditures and dividing the result by full market value of taxable property.
2. The number of pupils per district (or town) was determined on a resident pupil basis.
3. Expenditure figures were determined on the basis of current operational costs of the basic school program to the maximum extent possible, using readily available data. Similarly, the state aid figures exclude any non-current or non-basic program funds that are separately identifiable on a district basis.

Notes on the data for the seven individual states follow.

CONNECTICUT

Source: Connecticut Education Association, *Local Educational Finance, 1969-70.* 1971.

Resident Membership. This statistic is taken from Table II, "A.D.M. 1969-1970," pp. 8-13. This figure represents net resident average daily membership, defined as the number of pupils in the town or school district enrolled in public schools at the expense of such town or school district.

Current Expenditure. The figure used is "Total Current Expenses for Day Schools (Less Tuition)," from Table II. It includes administration, total instruction cost including supplies, attendance and health services, pupil transportation, operation and maintenance of schools, fixed charges, food services and student-body activities, and expenditures to other school districts. Also included are expenses for tuition-free summer schools. The sum of these items minus tuition receipts yields the current expenditure figure.

State Aid. "State Grants" from Table II is used for this statistic. This is a total of Grants for Assistance to Towns for Educational Purposes, the so-called general state aid, plus grants for trans-

portation. Also included are programs for special education, vocational education, school libraries, driver education, and grants for pupils residing on exempt state property.

Fiscal Capacity. Figures from Table I, "Net Grand List (1969)" pp. 1-7, were adjusted by the "Assessors' Percent" (assessment ratio) in the same table to yield Fair Market Value.

NOTE: Complete data for 14 towns that are part of six regional school districts are not available individually, but they are represented through consolidated data for the regional school district.

MAINE

Source: State of Maine, Department of Education, *Maine School Statistics, July 1, 1969 – June 30, 1970.*

Resident Membership. This statistic is the sum of elementary and secondary enrollment figures from Section I, "April 1, 1970 Resident Enrollment," pp. 1-17.

Current Expenditure. From Section II, pp. 18-35, the sum of elementary and secondary total operating expenditures is added to pupil transportation expenditure and tuition expenditure to yield total current expenditures.

State Aid. From Section I, "1970-71 Subsidy" represents the 1970-71 state general purpose aid figure. Subsidies for vocational education, evening schools, firemen's training, school construction aid, driver education, and school lunch programs are not included.

Fiscal Capacity. The appropriate figures appear in Section I, "State Valuation 1970." The valuation per pupil is based upon average resident pupil figures for October 1, 1969 to April 1, 1970.

Equalized Tax Rate. The tax rates were taken directly from Section II, "Total School Tax Rate Based on 1968 Valuation."

NOTE: Six towns have been omitted from this study because they had no enrolled pupils during the year of interest.

MASSACHUSETTS

Sources: Commonwealth of Massachusetts, Department of Education, (1) *Chapter 70 Distribution*, 1971.
(2) *Pupil Accounting Workbook, 1970-71.*
(3) *Per Pupil Expenditure, 1969-70.*
(4) *Educational Revenue and Expenditure Data – Fiscal Year '70.*

Resident Membership. A figure representing "School Attending Children" (as of October 1, 1969) is taken from (1). This figure includes any minor child in any school, kindergarten through grade 12, resident in the city or town. A figure for private school pupils, taken from (2), is subtracted out to yield the appropriate statistic.

Current Expenditure. A figure representing current operating expenditures per pupil in average membership for the fiscal year ending June 30, 1970 is taken from (3). The total figure taken includes regular day education, special education, and vocational day programs.

State Aid. A figure representing educational revenues per pupil in net average membership for the year ending June 30, 1970 is taken from (4) under "Revenues from the Commonwealth." This represents state school aid, including Chapter 70 aid, aid for transportation, aid to special education, school lunch support, and school building assistance.

Fiscal Capacity. "Latest Equalized Valuation" is taken from (1) and represents the equalized valuation of the aggregate property in a city or town subject to local taxation, as reported by the Tax Commissioner on December 31, 1970.

NOTE: No regional, vocational, or regional-vocational school districts were included in this study. Data for these districts are included for the individual towns making up these school districts.

NEW HAMPSHIRE

Sources: New Hampshire State Department of Education, Division of Administration,

(1) "1969-70 Average Daily Memberships based upon Attendance and Residence," 1971.
(2) "Cost Per Pupil in Residence of Current Expenses of Public Schools, by District, 1969-70."
(3) "Distribution of State Foundation Aid to School Districts for 1969-70," 1969.
(4) "Distribution to School Districts from the Proceeds of the New Hampshire Sweepstakes, 1969-70," 1969.
(5) "1968 Equalized Valuation Per Pupil, 1969-70, of New Hampshire School Districts," 1971.
(6) "Valuations, Property Tax Assessments, and School Tax Rates of School Districts, 1969-70," 1970.

Resident Membership. The total figure for "A.D.M. in Residence" is taken from (1).

Current Expenditure. This statistic is the sum of "Total Current Expenditures less Tuition Receipts" plus "Expenditures for Transportation," from (2).

State Aid. Aid figures from (3) and (4) are summed to arrive at a total state aid figure.

Fiscal Capacity. The appropriate figures are taken from (5), "1968 Equalized Valuation."

Equalized Tax Rate. "1969 School Tax Rate Per $1,000 of Equalized Valuation," is taken directly from (6).

NOTE: Six towns were consolidated into two cooperative districts for present purposes, and one town was eliminated because of inadequate data. Towns within the regional districts are represented individually.

RHODE ISLAND

Sources: (1) Rhode Island State Agency for Elementary and Secondary Education, *1969-70 Statistical Tables*, 1970.
(2) State of Rhode Island, Department of Community Affairs, *Annual State Report on Local Government Finances and Tax Equalization*, 1970.
(3) Rhode Island State Agency for Elementary and Secondary Education, *Selected School Statistics, 1969-70, 1970-71*, 1970.

Resident Membership. Resident average membership for each district is listed in (1), Table 8, p. 31. This represents the number of pupils for whom the district is financially responsible.

Current Expenditure. This figure is given in (1), Table 25, p. 66 as "Net Current Expenditures." It represents Total Current Expenditures less Tuition Received. Included are the expenditures attributed to the operation of day schools including transportation, tuitions paid out, and all other expenditures within the regulations governing the Foundation School Support Act.

State Aid. Table 27 in (1), p. 69, gives 1969-70 State Support Allotments for School Operations, and the "Total Allotments" figure is used to represent state aid. This includes the State Share for Foundation Enhancement Program, the Program for Disadvantaged Children, the Program for Handicapped Children, and a Miscellaneous category.

Fiscal Capacity. A figure representing "Equalized Weighted Assessed Valuation" is taken from (3), pp. 20-97, for the appropriate statistic. The weight is based upon a median family income adjustment factor.

NOTE: Two regional school districts were not included in the study. However, the individual towns making up these districts were included and the data for these towns reflect their proportions of the regional school statistics. The third regional district is represented as a region because data for the towns making up that district were not available individually.
The derived equalized tax rate was based upon an "Estimated Full Market Value" figure appearing in (2).

VERMONT

Source: Vermont State Department of Education, *1969-1970 Financial Statistics: Vermont School Systems*, Report 052.

Resident Membership. A "1970 A.D.M." figure, representing the resident membership, was taken from Table II, pp. 2-17.

Current Expenditure. This figure is taken from Table II. It represents the total expenditure figure minus deductions for Federal and state funds, tuition and transportation receipts from other districts, and a miscellaneous category.

State Aid. This item is the sum of "General State Aid" and "State Vocational Aid," taken from Table IV, pp. 38-55.

Fiscal Capacity. This figure is represented in Table II by "Equalized Grand List" which is 1 percent of fair market value of all taxable property in each school district. It was multiplied by 100 to arrive at full market value.

NOTE: No union school districts were included in the study. The towns making up these districts are represented individually and the data for these towns include their proportion of union school district figures.

CALIFORNIA

Source: California State Department of Education, *California Public Schools: Selected Statistics, 1969-70*, 1971.

Resident Membership. This is the sum of elementary and high school figures for "1969-70 Second Period Average Daily Attendance" taken from Table IV-11, pp. 85-117.

Current Expenditure. This is the "Current Expense per Unit of A.D.A." figure appearing in Table IV-11. It includes administration, instruction, health services, pupil transportation, operation of plant, and maintenance of plant. These categories are part of the General Fund expenditures which are common to all operating school districts.

State Aid. Table IV-11 presents figures for "State Aid per Unit of A.D.A." to yield this statistic.

Fiscal Capacity. The figure used was "1969-70 Modified Assessed Valuation" taken from Table IV-11. The assessed valuation of individual counties is modified by the "Collier Factor" which reflects the relationship of the county assessment levels to the statewide average assessment level.

NOTE: Data appearing in Table IV-11 are divided into Unified, High School, and Elementary School Districts. In order to make the data comparable, a unified district was created for each high school district which includes the specific high school and each elementary school district within the high school district. This procedure overcomes the problem of otherwise comparing high school and elementary districts separately because of large differences in expenditures per pupil between the two types of districts. Thus, all data are represented on a unified or "created unified" basis.

INEQUITIES IN THE BENEFITS AND BURDENS OF PUBLIC EDUCATION

Arthur E. Wise

It had long been believed by many that there was something fundamentally wrong with the way we finance public education in the United States. In 1965 I first proposed that our system of public school finance could be challenged under the United States Constitution.[1] In arriving at this conclusion I made a number of observations:

1. While there was and is a question as to the *adequacy* of educational resources, the question applies to individual school districts with unequal force.
2. While there was and is a question as to the *efficiency* with which educational resources are employed, that question has been critical for only some school districts.
3. Most state constitutions place the responsibility for education with the state legislature. Generally the language of the article related to the establishment of schools requires the legislature to establish and maintain a thorough and uniform system of free public schools throughout the state. Thus, the question of educational equity may be examined in statewide perspective.
4. Most state courts which have had to deal with questions of school finance have ruled that school taxes, whether collected by the state or by the localities, are state taxes. Consequently, it seems appropriate to examine questions of equity in taxation and of equity in resource allocation from a statewide perspective.

Mr. Wise is Associate Dean of the Graduate School of Education, University of Chicago, and author of *Rich Schools, Poor Schools: The Promise of Equal Educational Opportunity*, Chicago: University of Chicago Press, 1968.

[1] Arthur E. Wise, "Is Denial of Equal Educational Opportunity Constitutional?" *Administrator's Notebook*, February, 1965, pp. 1-4.

5. The equal protection clause of the fourteenth amendment to the Constitution of the United States asserts that no state shall "deny to any person within its jurisdiction the equal protection of the laws." The equal protection clause can, in theory, be applied to virtually every state law, including school finance legislation.
6. All states have recognized their obligation for the equalization of educational opportunity through the development of state aid plans.[2]

These observations led me to examine the subject of school finance from a statewide perspective and to raise the question of the constitutionality of our system of public school finance.

Financial Inequities

Inequities in school finance have long been a part of our system in the United States. One school finance expert has said:

> . . .the present plans in use for the apportionment of school funds in fully three-fourths of the states of the union are in need of careful revision. And there is likewise need for more careful study of the problem than has been given it so far by most of the states if it is desired that future evolution shall take place along more intelligent lines than has been the case in the past.[3]

That expert was Ellwood P. Cubberley, describing the situation as he saw it in 1905.

Today, from school district to school district within nearly every state, substantial differences in educational expenditures per student continue. It is not uncommon to find some school districts spending three or four times as much as others. Of course, the high educational expenditures are to be found in the wealthy areas of the state and the low in the poor areas. Thus, those who are supposed by many to have greater educational needs have fewer educational opportunities. And, it turns out, not only do the poor receive less but they pay more. Generally, poor school districts have higher tax rates than do rich school districts.

[2] Observations 3-6 are discussed in Arthur E. Wise, *Rich Schools, Poor Schools: The Promise of Equal Educational Opportunity*, Chicago: University of Chicago Press, 1968.

[3] Ellwood P. Cubberley, *School Funds and Their Apportionment*, quoted in James W. Guthrie, George B. Kleindorfer, Henry M. Levin, and Robert T. Stout, *Schools and Inequality*, Cambridge: Massachusetts Institute of Technology Press, 1971.

The California Supreme Court in its recent decision described the effect of that state's school finance system on two districts. The Baldwin Park school district expended only $577.49 to educate each of its pupils in 1968-69, while the Beverly Hills school district, in the same county, expended $1,231.72 per pupil. The principal source of this inequity was the difference in local assessed property valuation per child: in Baldwin Park the figure was $3,706 per child, while in Beverly Hills it was $50,885 – a ratio of 1 to 13. Furthermore, Baldwin Park citizens paid a school tax of $5.48 per $100 assessed valuation, while Beverly Hills residents paid only $2.38 per $100 – a ratio of more than 2 to 1.[4]

The situation in New England is no different. Writing in the *New England Economic Review* in 1970, Steven J. Weiss characterized the situation as follows:

> Since school systems in most states rely heavily on local tax revenues, school expenditures are closely related to local wealth, or the size of the available property tax base.
>
> This close tie between the property tax and school spending often yields strikingly inequitable results: "rich" districts are able to afford high levels of school spending at moderate tax rates while less affluent communities exert a greater tax effort and still spend less per pupil on schools. State governments assist localities by providing aid in varying degrees and according to a complex variety of allocation procedures. Unfortunately, even when state school aid is intended to "equalize" local tax burdens and school spending levels, the results in practice are generally rather ineffective, and large disparities persist.[5]

Weiss gathered data from the six New England States.

In analyzing his data, he arranged school districts in each state according to the equalized valuation per pupil, the basic school tax rate in mills, and current expenditures per pupil. He then compared the 90th and 10th percentile school districts in terms of each of these dimensions. In Massachusetts, he found that the 90th percentile school district had an assessed valuation of $45,200 per pupil while the 10th percentile school district had an assessed valuation of

[4]*Serrano* v. *Priest*, 5 Cal. 3d 584, 1971.

[5]Steven J. Weiss, "The Need for Change in State Public School Finance Systems," *New England Economic Review*, January/February, 1970, p. 3. See also the paper by Steven J. Weiss and Deborah Driscoll in this volume.

STATISTICAL MEASURES OF EXISTING DISPARITIES IN PUBLIC SCHOOL FINANCE, NEW ENGLAND STATES

	Maine	Mass.	Vermont	N. H.	R. I.	Conn.
A. Equalized Valuation per Pupil: ($ thous.)						
Mean	12.2	28.8	33.6	29.3	33.1	32.2
Median	7.8	22.3	25.9	22.6	28.9	29.5
10th Percentile Level	3.6	15.5	16.0	13.7	23.1	19.3
90th Percentile Level	25.6	45.2	57.4	56.2	42.5	46.8
Ratio of 90th to 10th Percentile Level	7.1	2.9	3.6	4.1	1.8	2.4
B. "Basic" School Tax Rate (Mills)						
Mean	30.8	21.9	12.2	18.6	11.4	14.7
Median	28.9	22.4	12.3	18.8	11.8	14.0
10th Percentile Level	16.8	13.2	6.8	10.2	7.3	9.9
90th Percentile Level	47.8	30.6	18.1	25.5	14.2	20.8
Ratio of 90th to 10th Percentile Level	2.8	2.3	2.7	2.5	1.9	2.1
C. Current Expenditures per Pupil ($):						
Mean	428	684	577	534	574	640
Median	394	666	568	509	564	631
10th Percentile Level	320	547	471	417	499	511
90th Percentile Level	555	858	689	679	670	801
Ratio of 90th to 10th Percentile Level	1.7	1.6	1.5	1.6	1.3	1.6

Source: Steven J. Weiss, "The Need for Change in State Public School Finance Systems," *New England Economic Review*, January/February, 1970, p. 9.

$15,500 per pupil – a ratio of 2.9 to 1. The 90th percentile school district had a basic school tax rate of 30.6 mills while the 10th percentile school district had a basic school tax rate of 13.2 mills – a ratio of 2.3 to 1. The 90th percentile school district had a current expenditure per pupil of $858 while the 10th percentile school district had a current expenditure per pupil of $547 – a ratio of 1.6 to 1. The situation is comparable in the other New England states. According to Weiss:

> The data reveal clearly that large intrastate disparities exist in local wealth, school tax effort and levels of school spending. The most extreme variation appears in equalized valuation per pupil – the measure of local ability to pay for schools. Variation in tax rates is also quite high, and it is least severe in spending levels. That is, of course, as would be expected, since state school aid distributions and other factors tend to compensate partially for local wealth disparities. Even so, tax rates and spending results vary over a wide range. . . .
>
> The evidence from this study supports the conclusion that wealth is the most important single factor affecting expenditures for education. There is a consistent positive relationship between equalized valuation per pupil and current expenditures per pupil, and a strong inverse correlation between equalized valuation per pupil and "basic" tax rates. The disparities in local school tax effort and spending levels are largely attributable to the heavy reliance on the local property tax in these states.[6]

Educational Inequities

Thus far we have spoken only of dollar disparities. But what are the characteristics of these dollar disparities which lead to a conclusion of inequality of educational opportunity? This question has been recently addressed in an important and provocative study by Guthrie, Kleindorfer, Levin, and Stout. Their study was prepared in support of a suit filed by the Detroit Board of Education and has been published as *Schools and Inequality.* The study analyzed the complex relations among socioeconomic status, school services, pupil performance, and postschool opportunity in the State of Michigan. Guthrie et al. put forth the defended five propositions in a systematic way. These are:

> A. *Socioeconomic Status and School Services.* The quality of school services provided to a pupil is related to his socioeconomic status,

[6]Weiss, "The Need for Change in State Public School Finance Systems," p. 8.

and that relationship is such that lower-quality school services are associated with a pupil's being from a lower socioeconomic stratum.

B. *School Services and Pupil Achievement.* A relationship exists between the quality of school services provided to a pupil and his academic achievement, and that relationship is such that higher-quality school services are associated with higher levels of achievement.

C. *Pupil Achievement and Postschool Opportunity.* The postschool opportunities of a pupil are related to his achievement in school, and that relationship is such that higher achievement is associated with "success" and lower achievement is associated with lack of "success."

D. *Socioeconomic Status and the Level of Available Resources.* The total level of resources made available as a result of state arrangements for support of schools is related to the socioeconomic status of pupils, and that relationship is such that lower levels of resources are associated with a pupil's being from a lower socioeconomic status household.

E. *Level of Available Resources and Quality of School Services.* The total level of resources provided for the support of schools is related to the quality of school services delivered, and that relationship is such that lower levels of resources are associated with lower-quality school services.[7]

Of these, proposition B, postulating a relationship between school services and pupil achievement, is the most provocative because it contradicts the most well-known conclusion of the Equality of Educational Opportunity Survey, more popularly known as the Coleman Report. That conclusion was:

> Taking all these results together, one implication stands out above all: That schools bring little influence to bear upon a child's achievement that is independent of his background and general social context; and that this very lack of independent effect means that the inequalities imposed upon children by their home, neighborhood, and peer environment are carried along to become the inequalities with which they confront adult life at the end of school.[8]

Guthrie et al. contend that this conclusion is not necessarily warranted because of the inadequacy of the measurements utilized, the

[7] Guthrie et al., pp. 7, 111.

[8] James S. Coleman et al., *Equality of Educational Opportunity,* quoted in Guthrie et al., p. 60.

imprecise manipulation of those measures, and the inappropriate statistical techniques.

Guthrie et al. re-analyzed the Michigan sample in the Coleman Survey in a new test of school service effectiveness. The study "controlled" for social environment or background and related 12 school service components to tests of reading ability, mathematics understanding, and verbal facility. Each of the following was found to be positively associated with at least one set of test scores at the .05 level of statistical significance: school site size, library volumes per student, classrooms per 1,000 students, teachers' experience, teachers' attitudes, and teachers' verbal ability. The following were found to be negatively associated: building age, percentage of make-shift classrooms, and size of school enrollment. In short, the quality and quantity of school services influence what children learn.

Defining equality of educational opportunity is very difficult. Defining inequality of educational opportunity is less difficult. *A system which allocates school services on the basis of socioeconomic status would appear to be denying equality of educational opportunity.*

Equality of Educational Opportunity

It seemed eminently reasonable in the decade of the 1960s to view these inequities in the light of the then prevailing egalitarian thrust of the U.S. Supreme Court. The Court, under Chief Justice Earl Warren, had been embarked on a course of guaranteeing fundamental rights to dispossessed minorities and had precipitated broad social change. In 1954 the Supreme Court declared that, at least as far as race is concerned, public education is a right that must be made available equally. Beginning in 1956 the Court began to attack discrimination based on wealth in a series of cases concerned with rights of defendants in criminal cases. In 1962 the Court moved to eliminate geographic discrimination by requiring legislative reapportionment. By 1966 the wealth discrimination argument had been extended to voting rights in a case that eliminated the poll tax.

In the context of this historic trend, a constitutional attack on inequities in educational finance seemed eminently feasible. Many parallels among the rights at stake were possible. More important, perhaps, was the fact that the Warren Court had demonstrated a willingness to guarantee individual rights when legislatures failed to act. State legislatures had been struggling with miserly state school finance equalization formulas for at least as long as they had failed to reapportion themselves.

But now it is 1972 and the Warren Court is gone. And recent personnel changes on the Court have vitiated the confident prediction that inequitable school finance systems would ultimately be declared unconstitutional.

The constitutional question which I had posed was whether the equal protection clause compels a state to afford equal educational opportunity to all students attending the public schools within that state. The correct proposition, I believed and continue to believe, is that the quality of a child's education may not be a function of the wealth of his parents, neighbors, or school district, or I hasten to add, of their willingness to tax themselves for educational purposes. The focus is upon the child, upon equal protection for the child, and upon equality of educational opportunity for all of a state's children. Consequently, I proceeded to develop a legal theory which was consistent with the notion of the rights of the individual. After all, in the other areas in which the "fundamental interest theory" had been held to apply – the rights of defendants in criminal cases and the right to vote – it was the rights of individuals which were to be protected. It therefore seemed reasonable that if the equal protection clause were held to apply to educational opportunity, it would apply to individual children.

Looked at another way, a state's school finance statutes embody a de facto classification of the students in the state on the basis of the school district where they happen to reside. This classification, explicitly on the basis of school districts and implicitly on the basis of local assessed valuation per pupil, largely determines the quality of educational opportunity the student is to receive.

The United States Constitution allows states to classify. Generally, however, the Supreme Court has ruled that a classification to be reasonable must be related to the purpose of the law. The question becomes: Is the classification of students according to the tax base where they live sufficiently related to the purpose of the law to be considered reasonable? If the source of educational funds is not to determine the quality of the students' education, then what non-educational factors can?

If our equal educational opportunity principle were adopted by a court, what would it mean? It would, first of all, eliminate the foundation program and similar mechanisms. It would end our current system of allocating educational resources according to social class. It would assert that the opportunity of an education is a right which must be made available to all on equal terms. The principle is limited in that it says nothing about the revenue raising function. It speaks

only to the distribution of educational resources from a statewide perspective. It is an open principle which asserts only that the quality of a child's education may not be a function of the wealth of his parents, neighbors, or school district. It permits a variety of resource allocation schemes which are related to the characteristics of children.

Fiscal Neutrality

Enter at this point a competing proposition vying for constitutional status – the "fiscal neutrality" or "no-wealth" principle of public school finance: the quality of public education may not be a function of wealth other than the wealth of the state as a whole. This is the proposition put forth by Coons, Clune, and Sugarman in their important book on this subject.[9] For them the crucial malady of the current system is the unequal tax burden which communities must bear for any given level of educational expenditures. Bear in mind that for this author the crucial defect is unequal expenditures related to social class. It is perhaps not too much of an oversimplification to say that I am concerned with unequal expenditures while they are concerned with unequal tax rates.

What would the no-wealth principle mean? It insists appropriately that educational quality not be made a product of local wealth differentials. However, it would continue to permit educational quality to vary from school district to school district. In fact, it would permit the very situation that exists today. Of course, Coons et al. do not mean to continue the status quo. They would have the Supreme Court create the conditions wherein state legislatures could experiment with new systems, hopefully their own.

To get a clearer picture of their objectives, one must examine their specific proposal for a "power-equalizing" system of public school finance. The total receipts of a state's education taxes would be equally available to all public school children, and ultimate responsibility for school finance would be placed with the state. School districts, through the taxing mechanism, would be free to choose various amounts of the state's wealth by deciding how steeply they are willing to tax themselves. The system would leave school districts – rich and poor alike – free to select levels of spending for education while giving each district equal power to do so. Thus, for example, a

[9]John E. Coons, William H. Clune III, and Stephen D. Sugarman, *Private Wealth and Public Education*, Cambridge: Harvard University Press, 1970.

community that chose to tax itself at the rate of 1 percent might have available $400 per student, irrespective of the wealth of that community. A community that chose to tax itself at the rate of 2 percent might have available $800 per student, again irrespective of the wealth of that community. The state in this scheme commits itself to the specified level of expenditures per student regardless of what is raised by the local tax. The state gives aid in exactly the amount that local resources are insufficient to reach the specified expenditure.

What the system equalizes is the burden that a community must bear for any given level of educational spending. It most certainly does not equalize educational resources for all students in a state, much less provide equal educational opportunity. The quality of a child's education continues to be subjected to a vote of his neighbors. And, in a power-equalized state, what is to prevent the rich from valuing education more highly than the poor?

Coons et al. analyze the corpus of equal protection cases concerned with education, criminal justice, voting, race, poverty, and geography. Their principal difficulty as they wend their way through these powerful decisions is to find a way to forbid discrimination by wealth and to permit discrimination by geography or, more precisely, by the vote of a child's neighbors. There must be less onerous alternatives.

Should the Supreme Court ever give a full review to a school finance case, it would not or could not stop at the point that Coons, Clune, and Sugarman would have it. Having reviewed the corpus of equal protection law, the Court would have to find it anomalous that there be equality of opportunity unless a child's neighbors vote it away.

Serrano v. Priest

So much for theory. Except for two ill-conceived and abortive efforts at court tests of the constitutionality of school finance legislation, the first landmark is the California Supreme Court's decision in *Serrano* v. *Priest*. Bear in mind that we have uncovered at least three kinds of inequities in school finance — inequities in assessed valuation, inequities in school tax rates, and inequities in per pupil expenditures, with the last highly correlated with socioeconomic status. To which of these does *Serrano* apply? The Court's opinion exhibits the heavy influence of Coons, Clune, and Sugarman who had prepared *amicus* briefs for the case; much of the opinion reads from the pages of their book *Private Wealth and Public Education*. The

first and clear interpretation of *Serrano* is consistent with the proposition that the quality of public education may not be a function of wealth other than the wealth of the state as a whole. This proposition would permit educational quality to vary from school district to school district so long as each district had an equal capacity to raise funds for education.

We can do no better than cite the summary statement of the California Supreme Court:

> The California public school financing system, as presented to us by plaintiffs' complaint supplemented by matters judicially noticed, since it deals intimately with education, obviously touches upon a fundamental interest. For the reasons we have explained in detail, this system conditions the full entitlement to such interest on wealth, classifies its recipients on the basis of their collective affluence and makes the quality of a child's education depend upon the resources of his school district and ultimately upon the pocketbook of his parents. We find that such financing system as presently constituted is not necessary to the attainment of any compelling state interest. Since it does not withstand the requisite "strict scrutiny," it denies to the plaintiffs and others similarly situated the equal protection of the laws.

The fiscal neutrality interpretation of *Serrano* would remove variations in local wealth as a factor in determining how much is to be spent on the education of a child. The capacity of each school district to raise funds would be equalized. However, local school districts would be permitted to decide how heavily they are willing to tax themselves and, consequently, how much they wish to spend on the education of their children. The fiscal neutrality interpretation focuses rather more on taxpayer equity and rather less on educational equity.

All of this seems rather weak in the light of some of the powerful statements made by the Court in support of the concept of education as a fundamental interest.

> First, education is essential in maintaining . . .'free enterprise democracy.'. . .
>
> Second, education is universally relevant. . . .
>
> Third, public education continues over a lengthy period of life. . . .
>
> Fourth, education is unmatched in the extent to which it molds the personality of the youth of society. . . .
>
> Finally, education is so important that the state has made it compulsory. . . .

Indeed, in several places the Court seems to assert that the quality of education must be equalized. As I have already noted, the Court invalidated the financing system *because* it makes the "quality of a child's education depend upon the resources of his school district and ultimately upon the pocketbook of his parents." And in the penultimate paragraph of the opinion: "By our holding today we further the cherished idea of American education that in a democratic society free public schools shall make available to all children equally the abundant gifts of learning."

All of which is to say that there may be another interpretation of *Serrano* – consistent with my proposition that the quality of a child's education may not be a function of where a student lives, what his parental circumstances are, or how highly his neighbors value education. This proposition would prohibit variations in the number of dollars spent on any child by virtue of his place of residence. It would permit variations based on educationally relevant characteristics of the child. It would also permit variations based on such extra-educational factors as differences in price levels and economies of scale.

You should be aware that I may stand alone in this interpretation but I urge you to hear the words of the Court. In the course of the opinion, the Court disposed of an argument "that territorial uniformity in respect to the present financing system is not constitutionally required;... where fundamental rights or suspect classifications are at stake," said the Court, "a state's general freedom to discriminate on a geographical basis will be significantly curtailed by the equal protection clause." In support of this interpretation, the Court first relied upon the school closing cases in which the U.S. Supreme Court invalidated efforts to shut schools in one part of a state while schools in other areas continued to operate. Secondly, the Court relied upon the reapportionment cases in which the U.S. Supreme Court held that accidents of geography and arbitrary boundary lines of local government can afford no ground for discrimination among a state's citizens. "If a voter's address may not determine the weight to which his ballot is entitled, surely it should not determine the quality of his child's education." Consequently, it would appear that school finance plans cannot have different effects solely because of geography. In other words, neither wealth nor geography is a permissible basis for classifying children for the purpose of determining how much is to be spent on their education.

The equal educational opportunity interpretation of *Serrano* would require that educational resource allocation not depend upon

where a student lives, what his parental circumstances are, or how highly his neighbors value education. One point which remains unclear in the opinion is whether the equal protection clause has been held to apply to children, to taxpayers, or to school districts. If it is children who are entitled to equal protection, then it is difficult to understand how the quality of a child's education could be subjected to a vote of his neighbors. The equal educational opportunity interpretation would permit a variety of educational resource allocation standards. For example, the minimum attainment standard would require that educational resources be allocated to every student until he reaches a specified level of attainment. The leveling standard would require that resources be allocated in inverse proportion to students' ability; the competition standard would require their allocation in direct proportion. The equal dollars per pupil standard would assume that ability is an illegitimate basis for differentiating among students. The classification standard would require that what is regarded as a "suitable" level of support for a student of specified characteristics is suitable for that student wherever he lives within the state.[10] The point is that these rules for allocating educational resources are related to the characteristics of the child and not to the characteristics of his school district.

A Model Legislative Response

The specific plan which I will outline was designed for the State of Maryland. The principles seem consistent with the second interpretation of *Serrano* and not inconsistent with the first interpretation of *Serrano* as discussed earlier. The principles may be feasible for many states. The proposal, in its detail, is surely not applicable to other states without modification. Major differences between Maryland and many other states are the fact that Maryland has only 24 school districts and the fact that expenditure variations among them are relatively moderate.

We begin with a definition of full state funding which grows out of our second reading of *Serrano*. Our concept calls for a school finance system which brings to bear all of a state's educational tax base on the education of all children in the public schools of that state. It provides for equity both in educational taxation and in educational resource allocation. It requires that educational resource allocation

[10] For a detailed analysis, see Wise, *Rich Schools, Poor Schools*, Chapter 8.

not depend upon where a student lives, what his parental circumstances are, or how highly his neighbors value education. It avoids the specious state-local distinction in the generation of educational revenues, for all taxes raised for education are, in fact, state taxes. The definition clearly accommodates a variety of educational resource allocation schemes and systems for educational taxation. Its only essential characteristic is that there be equity in the benefits and burdens of education. The concept is compatible with the present system of local school control. A version of full state funding is explained in the recommendations which follow:

1. It is recommended that the state assume financial responsibility for all public schools.

2. It is recommended that over a period of three years per pupil expenditures from state and local funds be equalized.

3. It is recommended that the equalized level of per pupil expenditures in three years be set at the level of the highest-spending school district in 1971-72.

4. It is recommended that, in order to allow for differences in economies of scale, the per pupil expenditure in any school may vary 5 percent in either direction from the equalized level.

5. It is recommended that, in order to allow for regional price-level differences, the per pupil expenditure in any school district may vary 5 percent in either direction from the equalized level.

6. It is recommended that certain types of Federal aid, notably Title I of the Elementary and Secondary Education Act (assistance for educationally deprived children), be allocated in addition to the equalized level of per pupil expenditure.

7. It is recommended that certain types of Federal aid, notably school assistance in Federally affected areas, not be allocated in addition to the equalized level of per pupil expenditure.

8. It is recommended for education purposes that a uniform statewide tax on property or mandated uniform locally-imposed tax on property be instituted. It is further recommended that additional revenues for education be generated by other statewide taxes, preferably the income tax.

9. Assuming the institution of these recommendations in 1972-73, the state will have achieved an equalized level of per pupil expenditure by 1974-75. At that point the state legislature can begin to set levels of educational spending in competition with its assessment of needs for other public services.

As was stated at the outset, what *Serrano* mandates is not clear. The model satisfies both interpretations of *Serrano*. The model satis-

fies the interpretation that the capacity of school districts to raise funds be equalized. It also satisfies the interpretation that all educational funds be made available to students on an equitable basis. If only the first interpretation is correct, then the model goes further than the California Supreme Court intended. If the Court did not intend the second interpretation, then the opinion is concerned with taxpayer equity and not equality of educational opportunity.[11]

Conclusions

The prognosis for *Serrano* is unclear. Moreover, what *Serrano* in its pristine interpretation would achieve by way of reform is extremely limited.

However, casting school finance problems in a constitutional law framework has, I believe, already had salubrious consequences. The years since the legal theories were developed have seen an unprecedented level of school finance activity on the part of political bodies. While other factors have undoubtedly played a part, the threat of impending lawsuits may have served as an impetus to action in an area that has been characterized by legislative intransigence.

The concept of "full state funding" has entered the vocabulary of education. President Nixon has appointed a Commission on School Finance and is reported to be "deeply conscious of the inequities and the inadequacies of the property tax as the principal source of support at the local level for the cost of education." The Advisory Commission on Intergovernmental Relations has recommended that the states assume "substantially all" of the responsibility for financing local schools in order to grant property tax relief and ensure equal educational opportunity. Governor William Milliken of Michigan has been endeavoring to achieve broad reform in educational finance in that state for the last two years. Reportedly, the Fleischmann Commission in New York State will recommend full state assumption of the costs of education, imposition of a state-wide property tax, stabilization of spending in wealthy school districts, and ultimately greater spending in districts with poor disadvantaged youth.

[11]The model is described more fully in Arthur E. Wise, "School Finance Equalization Lawsuits: A Model Legislative Response," *Yale Review of Law and Social Action*, Winter, 1972.

Moreover, I believe the level of dialogue concerning equality of educational opportunity has improved among school finance specialists. In the past, the analyses of such specialists have given rhetorical notice to the concept of equality of educational opportunity; their specific recommendations have, however, usually not called for substantial change. In contrast, the recently issued recommendations of the National Educational Finance Project illustrate a fundamental reorientation to change. The language of the NEFP's brochure "Future Directions for School Financing" is quite strong:

> THE NUMBER OF DOLLARS SPENT ON EDUCATION SHOULD BE BASED ON THE EDUCATIONAL NEEDS OF THE CHILDREN RATHER THAN THE WEALTH OF THE SCHOOL DISTRICT . . . .
> Among the courses open to the state:
> It can eliminate the local district's authority to levy regressive property taxes, providing the district instead with the entire cost of its program from state and federal sources which are derived principally from income and consumer taxes.
> If it chooses to retain the existing system it can, as most states do at the present time, reduce inequities in fiscal capacity by providing more state funds per pupil to the districts of less wealth than to the districts of greater wealth or it could entirely eliminate inequities by distributing whatever amounts of state school aid are required to eliminate the differences in local wealth per pupil.
> It can reorganize local districts to increase their efficiency and reduce variations in wealth.
> It can provide for the extra costs of special education programs and the specialized services needed by some pupils and schools.[12]

Thus, whether school finance reform is achieved through the courts is less important than that reform take place. Casting school finance problems in legal terms may have helped to highlight the need for reform. I am of the opinion that it would be far better for state legislatures to undertake reform at their own initiative.

[12] National Educational Finance Project, "Future Directions for School Financing," Gainesville, Fla.: 1971, pp. 8, 31-32.

THE JUDICIAL IMPACT

Paul R. Dimond

I am here today to speak about the judicial impact of *Serrano* v. *Priest*.[1] I am not going to tell you what the fate of *Serrano* will be in your state, or in the U.S. Supreme Court, other than to tell you it is a very close question. One thing, however, is clear about the *Serrano* opinion: if its reasoning is adopted in each New England state, then each of the New England states is in violation of the U.S. Constitution. Your present mechanisms of financing public education are illegitimate. In order to understand that, I recommend that each of you look at Steven Weiss' statistics on assessed valuation per pupil, property tax rates, and expenditures per pupil for each of the New England states as compared with California,[2] and you will see that you are no better off here than in California.

The second point I would like to make, in legal terms, is that I really do not believe *Serrano* has much to do with the concept of equality of educational opportunity, as Mr. Wise described it.[3] Nor do I accept the notion, at least with any precision, that spending more dollars on children's education will necessarily lead to better educational outcome. In fact, I think that question is probably irrelevant to the constitutional inquiry as it is framed in *Serrano*. I think that it was also irrelevant to the decision in *Brown* v. *Board of*

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[1] *Serrano v. Priest*, 5 Cal. 3d 584 (1971).

[2] Steven J. Weiss, "The Need for Change in State Public School Finance Systems," *New England Economic Review*, January/February 1970. See also the paper by Steven J. Weiss and Deborah Driscoll in this volume.

[3] See the paper by Arthur E. Wise in this volume.

Education;[4] and as my primary field is desegregation, I feel more confident about that statement.

The principle of the *Serrano* case deals, quite simply, with dollars alone. Dr. Robert S. Ireland, in his discussion at the beginning of this conference, considered total resource allocation for education, how to raise and distribute that education dollar. The standard adopted in *Serrano*, as refined in later decisions in Minnesota and Texas, is this: the level of spending for a child's education may not be a function of wealth other than the wealth of the state as a whole.[5] That means, in the context of American public education which is supported substantially by local property taxes, that if two school *districts* have the same tax levy, they should be able to raise and spend the same number of dollars per pupil.[6] If you will look at Weiss' statistics on New England[7], you will see that this clearly is not now true. Rather, the pattern is that poor *districts*, as measured by assessed valuation per pupil, tax themselves harder to raise and spend fewer dollars per pupil than rich *districts*. That is precisely the pattern which was condemned in *Serrano* and each of its judicial progeny.

My problem with this principle is one that Mr. Wise has already indirectly mentioned: the equal protection clause speaks to the rights of *individuals*, not *districts*. That is why, on behalf of the Center for Law and Education at Harvard, representing legal services and poor people, we attempted to set forth a standard which would look at the rights of poor children. Our standard was rather simple: count the dollars spent on every child in the state, both within and between districts; take any cut-off point you want to measure poor and rich children; and then make sure that poor children are not getting fewer dollars spent on them, on the average, than the rest of the children in the state, or the rich children in the state, or whatever breakdown you would like to have.

[4]347 U.S. 483 (1954). See, generally, Kahn, "Jurisprudence," 30 N.Y.U. L. Rev. 150 (1955); Dimond, "School Segregation in the North: There is but One Constitution," 7 Harv. Civ. Rts. Civ. Lib. L. Rev. 1 (1972).

[5]*Van Dusartz* v. *Hatfield*, 40 U.S. L.W. 2228 (October 26, 1971). This principle has been variously called "Proposition 1" or "fiscal neutrality." Professor Coons and the California Supreme Court substituted "quality" for "level of spending" in their propositions; but as both defined quality in terms of dollars spent, the *Van Dusartz* phrasing is to be commended for dropping any possible implication of subterfuge.

[6]This minimum remedy is called "power-equalization."

[7]See Footnote 2, above.

The California Supreme Court did not adopt our standard, and for that reason, I am not going to try to mention it again except as a basis for policy. I think our main interest here should be in preventing discrimination against poor children, as a policy matter, and I think that is a question that applies both within districts and between districts. Most of you probably have very little to do with how much money you can raise in your district, relative to another district. That is an issue for the courts and the state legislatures. But you do have a great deal to do with how you distribute resources within your district. And on that issue several courts have found that you are discriminating against poor children.[8]

With that introduction I would like to tell you what *Serrano* does *not* do and tell you what options are available if the principle of that court decision is adopted in your state. The decision does not do away with the property tax as a source of school funds. You can still use the property tax as much as you want; but if you are going to use it at the local level, the same tax effort must result in the same number of dollars per pupil raised and expended. The court decision does not consider cost differentials, or the other tax problems which often fall under the rubric of "municipal overburden." The cost differential idea arises from two notions: first, that it costs more to educate the urban child, which I do not believe; and second, that it costs more to provide an input in an urban area – in other words, teachers' salaries, the cost of land, construction costs, etc. I do not know whether municipal overburden exists or not. Norton Grubb and Stefan Michelson, economists at the Kennedy School of Government and the Harvard Graduate School of Education, suggest in a forthcoming book that municipal overburden can be measured simply by the amount of non-education taxes in your community – the non-education tax rate.[9] The *Serrano* opinion does not deal with either of these "urban factors." The issue of municipal overburden is complex, but I wish the court had dealt with it because I think that it does have something to do with even the court's own notion about "fiscal neutrality." After all if an urban community's non-education tax rate is 10 times that of a rural neighbor, it is simply unrealistic to think that the education tax rate of each will accurately quantify

[8] Cf. *Hobson v. Hanson*, 269 F. Supp. 401 (D.D.C. 1967); 327 F. Supp. 844 (D.D.C. 1971).

[9] Stefan Michelson and Norton Grubb, *The Political Economy of School Resource Inequalities* (forthcoming).

either their relative interest or effort in supporting education. The cost differential problem, especially as it relates to teachers' salaries, has very little to do with the equity issue at stake except insofar as cost differentials may reflect regional variations in the cost of living.

Serrano does not set education priorities or suggest whether the state, local school districts, schools, or even individual families under tuition voucher schemes should be permitted to determine educational priorities. In other words, the whole theory of the *Serrano* decision is to free up the legislatures, the educators, and the families so that they may vigorously debate, for the first time, the appropriate method of financing American education and distributing educational resources.

Serrano does not speak to questions of race. It does not speak to questions of quality and performance. It does not speak directly to per pupil cost, simply because the minimum remedy that flows from *Serrano* is that equal tax *effort* must lead to the same number of dollars per pupil. It does not speak to the children of the rich or of the poor; and I would caution you not to take at face value Mr. Wise's statement that socioeconomic status is related directly to the poverty of school districts. In fact, a factual analysis of that question has to be made in each state to know whether or not it is true. To give you the most obvious example, in New York State clearly New York City is one of the richest school districts, yet it has by far the largest percentage and number of poor children. So that for New York State it simply is not true that poverty of children is related directly to poverty of districts, for the poorest children are in one of the richest districts.

Serrano does not decide that there is a right to an education. Instead, it calls education fundamental. The court has never held that just because there is a fundamental good it has to be provided. So if your state wanted to eliminate all support for public education nothing in *Serrano* would prevent it. *Serrano* simply says that if you are going to support public education there is a notion of "fiscal neutrality" in the operation of the financing scheme which should govern the school finance system. It does not say in any way how money should be spent. It does not say, for example, that money raised must be spent on poor children in poor districts or on poor children in rich districts. To return again to my initial remarks, if a "power-equalizing" scheme were instituted, which is the minimum remedy that flows from *Serrano*, you would still be free to discriminate against poor children in the distribution of educational dollars within districts.

Furthermore, *Serrano* does not speak to interstate disparities or to the role of the Federal government. As we all know, there are extensive differences in wealth among states. The problem is that the 14th amendment says "No state shall. . ."; thus it is difficult to apply the 14th amendment to discrimination between states.

Yet there is a role for the Federal government in school finance. But I do not think that *Serrano* is a call for the Federal government to intervene to bail out the individual states. Rather, *Serrano* is a demand upon state legislators to put their own houses in order first. The role of the Federal government would be: first, to go *beyond Serrano*, to try to take care of interstate and regional disparities; and second, to enforce *Serrano*, to attach strings to Federal dollars to try to make state legislators comply with the *Serrano* opinion.

What does *Serrano* leave open for you, then? If it does not do any of the things I have just described, what kinds of options are available to you? You can fund on the basis of school district characteristics. For example, I have already mentioned a minimum remedy, tax effort. You could fund on the basis of the number of students in each district which would, in essence, give you equal dollars per pupil. You could fund on the basis of family characteristics: once again on tax effort, or inversely to the level of the parents' education, or directly in relation to the level of the parents' education. You could fund on the basis of child characteristics. I think this is part of the formula that Mr. Wise has suggested. The most important characteristic of all children is simply that each one is a child. The state, therefore, should now be required as a policy matter to give compelling justifications for spending different dollar amounts for different children. For example, I think a compelling justification can be found for the special education of children who are handicapped if, in fact, there is a fair procedure to determine how those children are handicapped and a required review to make sure that these children are going to be given a benefit as well as the stigma of being labeled handicapped.

You can fund on the basis of other child characteristics. You could fund on the basis of the age of the children. I suppose an argument could be made that it costs more to educate children at the high school level than at the elementary level, or vice versa if you were going to put your priorities on learning how to read. You could fund on the basis of the talents of the children instead of on their disadvantages, if that is the priority you chose. I share some of Mr. Wise's prejudices and believe that, in fact, the reverse should be true. We should be most concerned about children in our society who are

children of poor parents, in order to avoid the cycle of having the same families poor in each succeeding generation.

You can fund with or without state assumption of the entire tax burden for education. In other words you can maintain the local revenue-raising structure, be it a property tax or any other kind of local tax, be it a lottery or any other method. Or, you could have a state education tax and prohibit any added local taxation. You could fund by distribution of money to existing or new school districts, to school units, or directly to families on a tuition voucher plan, regardless of how you raise the money. You could fund using any kind of state administration of schools, even a state takeover of all schools, maintain local control as you presently have it, or put in any other governmental mechanisms you wish.

Any of these schemes and all variations on each of them are permissible under *Serrano*. Jack Coons, and I take by implication those courts that have ruled on the issue, think that this may lead to a revolution in American education. I am less sanguine about the prospects, simply because, as I suggested earlier, I disagree with at least some parts of the principle of fiscal neutrality. I think it goes only halfway. To go the rest of the way it would be necessary to make sure that poor children are not discriminated against in the provision of dollars.

In conclusion, let me suggest a few things that you might consider as policy matters in terms of all these options available to you, not suggesting which alternatives are appropriate, but some I think you should consider. First, proposition 1, the *Serrano* theory, fiscal neutrality, whatever you would like to call it, has not been imposed on any of your states yet. You can wait around for law suits to be filed, as I know they are going to be in several of your states, or you can begin to act now and recognize that it is a policy issue as well as a constitutional issue.

Second, I think the real financial issue in American education has to do with poor children, not poor districts – in other words, the standard I proposed to you at the beginning of the talk. And I would like to see any response to *Serrano* take that into account. That means not only putting your own state houses in order but your own local school districts; out of state and local funds, poor children should receive at least the same share of dollars as do the rich and other children within your districts. On that point I think it is worthwhile to note that the National Education Finance Project (which as far as I know is the first to try to take a broader look rather than just picking out states one at a time and filing law suits) took a sample of

school districts within eight states across the country and found the urban school districts were the wealthiest in these eight states. So do not think for a minute that *Serrano* is going to save urban education. That is not its point; that is not its principle. The only thing that *Serrano* might do to help urban education is simply this: surrounding our urban areas today are some of our wealthiest school districts, and if the minimum remedy flows from *Serrano*, there may be a smaller economic incentive to move from a rich urban school district to an even richer suburban school district.

Third, I think that the amount of money spent once you get beyond a certain minimum has almost nothing to do with the quality of a child's education. It is simply too personal a matter, too important a matter to measure by dollars. We live in a capitalist society and we think dollars are important, and indeed they are. It is the shared myth of liberals, conservatives, businessmen, and labor that dollars are important – and they are. They buy us the comforts that we enjoy and many of the social goods that we are all able to share. But basically dollars, in terms of education, relate to a principle of labor equity – a fair working wage for the teacher. But money has very little to do with the quality of a child's education. It has very little to do with the child's educational outcome in terms of tested achievement or the credentials he is going to receive, whether he is going to be labeled smart or dumb, rich or poor; whether he is going to be tracked into a college preparatory program, a general program, or a vocational education program which holds out the hope of giving him a useful job when, in fact, it trains him for next to nothing. After all, if dollars have not purchased a better president or war or peace, there is no reason that dollars alone should buy a better education.

Fourth, the wealth of school districts may more properly be a function of factors other than the property tax valuation and the school tax. Once again I return you to the Michelson and Grubb book. If you are going to devise a remedy to *Serrano*, I think you should analyze whether or not there is a municipal overburden factor. In other words, are there services within cities which are mandatory and must be financed which are not provided in rural and suburban areas, such as fire protection, welfare, police and traffic control, and other things? The conclusion of the Michelson and Grubb book goes something like this: the problem with our present education financing scheme in Massachusetts is that only a few of the very wealthy and suburban school districts have any discretion over what they are going to spend on education, because they are the only

ones that have any discretion in setting their school tax rate. In most other school districts in the state there simply is no discretion available because non-education costs come before school taxes. By the time these communities have paid for all their non-education costs the capacity to raise taxes has already been exhausted.

Fifth, the method of raising revenues for education is vital. I do not think it does much good to respond to *Serrano* by implementing a regressive tax. I do not think it does much good to continue to rely on the property tax, which is relatively inelastic and regressive; and you should not listen to the remarks that the Federal government has usurped the progressive personal and corporate income tax, because it has not. That progressive and elastic tax is available to every state that wants to institute it, and it is a matter of state choice that this has not been done. If you are interested in financing education and some other services as well in a fair and efficient way, you might look to that same personal and corporate income tax.

Sixth, I do not believe the priority should be for the Federal government to raise the percentage of Federal funds for education. Instead, the primary role of the Federal government should [illegible] overcome interstate disparities and, where possible, to [illegible] specific educational problems. The Federal government also should be much more conscientious in its contracting mechanisms. For example, Title I, which is supposed to be a compensatory aid program, is now used as a discretionary aid program in most school districts. Such failure by the Federal government to enforce its own policies is an open invitation to wasting Federal dollars.

Seventh, I would like to suggest that the real issues in education are not financial. And I think you have already seen my point on this by my suggestion that the number of dollars you spend on a child is not the vital issue. Financing schools is a matter of equity, and I see no reason why poor children should have fewer dollars spent on their education than rich children. On the other hand, I think the real issues relate to control, to diversity, to choice, and, most important of all, to the issue of race. The paramount issue facing each of you who lives in a multi-racial state is simply whether you are going to have integration or continued segregation; or whether, if you are not going to integrate the schools, you are going to provide the same power over ghetto schools to black people that white suburbanites now have.

In conclusion, I have presented a mixed picture and I think I disagree with most of the constitutional analyses that are now floating around. I would like to see some very hard thought on policy

issues, and to see the term "equality of educational opportunity" dropped for the moment – it is old and tired, and we do not know what it means any more. Instead, I would like you to think about the issues that we do face in the 1970s, regardless of labels, which I think are vital for all our children, rich and poor, black and white.

THE ART OF THE POSSIBLE

Donald R. Dwight

I begin by thanking the New England School Development Council for the opportunity to speak here today. This is not the traditional, if somewhat banal, beginning. I am very grateful, because I have been forced to think seriously about the implications of a subject that I – and many of us – have only reacted to.

I should probably make the case first, and then issue my plea. But let me reverse the process and start with the conclusion – a brief plea for a policy preference.

A Plea for Deliberation

You, as individuals and collectively, will be a potent force for the reform of present methods of financing of public schools. I urge you to permit the state to move gradually into the new relationship between the state and the communities.

I hope we can learn from history. I think the people of Massachusetts have a healthy fear of precipitous state takeovers, a lesson learned from the state assumption of welfare costs and administration in 1968. It is still a shambles. I don't mean to imply an exact analogy between today's subject and the welfare disaster, but it is an unavoidable if inaccurate comparison.

Premising a child's elementary and secondary education on the tax base of his local community is discriminatory and therefore wrong. I leave it to wiser heads to determine whether such a premise is a violation of the 14th amendment. But whether or not the courts mandate the change, the cause is just, and we must tackle the fiscal aspects of equal educational opportunity legislatively.

But this is radical change, with vast and perhaps unforeseeable implications for many aspects of public policy. Rashness now equals regret later. I believe strongly that we must move slowly, deliberately, and wisely. Easily said, not easily done.

Mr. Dwight is Lieutenant Governor of the Commonwealth of Massachusetts, and former Commissioner of Administration and Finance.

Action Under Court Mandate

Even if we come to approach the problem under the pressure of a court decree, very great difficulty still would remain. I do not think the courts have much interest, competence, or standing to devise and order tax and expenditure patterns. It is possible to foresee a situation that should keep constitutional lawyers busy for a generation or more, if the legislature tries and repeatedly fails to find an acceptable remedy to an unconstitutional situation. When I say a generation of constitutional lawyers, I do not mean to exaggerate. It would be easy for the courts to consume 20 years in the consideration of this issue, even as they will have consumed more than that before the curse of inequality based on race is removed.

I do not think we can afford to wait a generation. Apart from the terrible human cost, the opportunity provided by our declining birth rate and a realignment of Federal and state responsibilities will have been lost.

Massachusetts Aid to Education

Massachusetts is like many other states in that its laws regulating state aid to local elementary and secondary education reflect two major competing political interests: that of the wealthy communities and that of the poorer communities. For example, our equalization formula is only partly equalizing because it guarantees a minimum flat grant of 15 percent of reimbursable expenditures to our wealthiest communities. Similarly, our statutes providing reimbursement for special education and school building construction are basically non-equalizing because they are based on a flat grant distribution system, with equal grants regardless of local wealth.

It seems to me that we ought to begin the process of moving toward a more equitable system of educational financing by providing that the scarce funds which the state already distributes be distributed on a completely equalizing basis, so that the state does not increase the already wide disparities caused by property values that differ from community to community. To distribute all state aid on an equalizing basis, however, would be a goal with great political obstacles to its achievement. No community considers itself so wealthy that it can afford to give up state aid which it is receiving. A substantial political constituency from our wealthier communities would, therefore, oppose attempts to develop a more equalizing approach to educational financing. Given a limited amount of

money, equalization obviously means taking from the rich to give to the poor. This is fine except that Robin Hood did not have the problems of reconciling adverse political interests and being elected to public office.

The political problem, therefore, in moving toward a system of state aid to education which is completely equalizing, is to determine what to give the wealthier communities in exchange for a reduction in their share of state aid. One possibility is to give them tax relief, but any progressive system of taxation obviously will tax in direct relation to wealth. So, we are faced with the dilemma of achieving greater equalization without alienating those constituents who would bear the burden of such equalization under any progressive tax program.

This dilemma makes appealing the suggestion of either total Federal or total state assumption of education costs. The former would provide *direct* Federal assistance while the latter would, without other changes, leave the state to face the virtually impossible task of providing the billion dollars required. However, a Federal takeover of welfare costs would provide considerable *indirect* assistance by freeing substantial state funds for educational purposes. Leaving the politics of equalization of existing state aid, I would like now to shift to some other relevant concerns.

Need for Balanced Financing and Control

I think that there is too great a tendency for educators, politicians, and others to try to offer simplistic panaceas to educational problems. I am not suggesting that the issue of financing is unimportant. I am merely suggesting that it is one of a number of factors: all necessary, but none sufficient in itself to produce quality education. I think that from the point of view of state educational policy, financing should be considered along with other critical factors such as the optimum size of school districts, the optimum manner of school governance, new techniques for learning such as the open campus, racial and economic integration, and a whole range of other factors.

With increased state support of local education will come the responsibility of the state to assure that all of these factors are considered in producing an opportunity for a quality education for each child. Of course, this increased state role in insuring educational quality may, at some point, conflict with the hallowed tradition of local control. It is at that point that we should consider the appro-

priate balance between state and local financing. I, for one, am loath to project a complete state takeover without assessing the impact of a more gradual approach. The lesson we have learned from past court decisions bringing sweeping changes, such as those in the areas of racial integration and voting rights, is that implementation is a lengthy and complex process which should, if possible, be carefully planned so as to minimize conflict.

An assessment of the problem of school financing and the political climate leads me to believe that our goal should be to continue to equalize state expenditures through expanded use of existing distribution programs which relieve the overburdened property owner. I would prefer to move gradually toward a greater state role in financing and to accelerate when and if Federal funds become available for takeover of welfare costs. By taking this more gradual approach, we can strike a proper balance between state and local financing and control of education.

However, we may not have the luxury of a gradual change. Increasingly there is evidence that the courts will force us to equalize educational expenditures immediately. What then are the issues?

Major Administrative Issues of State Financing

Many commentators seem to believe that a state can solve the problem simply by shoveling vastly more money out to school districts in some prearranged formula, leaving local control and local discretion substantially unchanged. This is that simplistic panacea in its purest form. One hears often the observation that he who controls the purse controls the program, but no one seems to have really addressed that problem. It is treated as simply a manifestation of a human tendency to want to aggrandize power when one has the leverage that comes with paying the bill.

Actually, there is much more to it than that. I see many administrative problems to be solved, and I will speak to some of these briefly.

First, there is the collective bargaining relationship. There are over 300 separate collective bargaining agreements in Massachusetts public education, and they differ in their treatment of almost every conceivable economic and non-economic issue. If the state comes to pay more and more of the bill, are these differences acceptable? If school committees are state officers, which they are in Massachusetts, spending state funds, can unequal wages and conditions of employment be tolerated? Fiscal autonomy is one thing where the type of

service rendered may vary widely for good reason, as at the higher education level; it may be something else again when there is an imperative to equalize the service offered. Does not equal protection of the laws also extend to teachers? How important to the concept of local control is control over salaries and conditions of work? This becomes an especially interesting question when one considers that the conditions of work being bargained over involve increasingly the rights of teachers to participate in decisions affecting them.

Second, and at a far more basic level, could the state afford to let local school districts spend its money at their discretion? Even tight-fisted Yankees may be more liberal with other people's money than with their own. Should they be permitted to maintain inefficiently small districts, recognizing that the point at which some say inefficiency sets in seems to rise substantially every year? Will it be necessary to police contracting procedures? What assurance is required that the funds are used in a way that benefits the pupils and not some other interest? Can we rationally establish priorities without using detailed measures of effectiveness? None of these issues involves any desire to centralize power for the sake of centralizing power, or any desire to take over education; they are simply matters of an unavoidable trusteeship responsibility for the use of public funds.

I conclude that there are serious administrative problems to be thought through and overcome. I believe that state operation of the schools is a frightening prospect; centralized administration could never duplicate the variety, flexibility, and responsiveness to community character that distinguish the present system at its best. But neither do I see any way to avoid increased state involvement when the burden of financing the schools passes substantially to the state.

The Question of Political Support

These administrative problems suggest just one of the many political problems that lie in front of a program aimed at substantial equalization. We may be sure that there is virtually unanimous support in any community for a program for which someone else is taxed to increase our school expenditure, provided of course that this "someone else" keeps his nose out of the way we run our schools. We at the state level feel the same way about our relationship with the Federal government. However, within the state, as within the various communities and within the Federal government, there is no "someone else" who pays the cost: in its own affairs, each

takes money from some of the citizens to provide services to others. Of course there is nothing unusual about that, but it would be a mistake to believe that even so good a cause as equalization of educational opportunity would make it an easy political task to accomplish more shifting than now occurs.

Clearly, if equalization is seen as directly jeopardizing one community's schools to benefit the schools of another, there is no program imaginable that would attract widespread support. If, on the other hand, we equalize at the highest pre-existing level of support, the costs of education more than double. The current NESDEC formula for distributing state aid[1] involves an incentive for school systems to do more. Is it enough to equalize the ability of the various systems to do more, if the result is that some take advantage of the opportunity while others do not, and inequality for pupils remains? I think this begs the central issue of what is understood in the phrase "equalization of educational opportunity."

The political problem is in some ways analogous to the problem of getting small districts to combine. The wealthy district does not want its commitment diluted, the poor district does not want its costs increased, and neither wants outsiders controlling the education of its children. It is a wonder that we have done as well in district consolidation as we have. And despite my deep concern, perhaps pessimism, about the complexities of the issue, I am encouraged by the relative success in district consolidation.

It is also worth observing that there is no easy or obvious coalition of support for any particular program. City interests may be expected to make much of the fact of municipal overburden, and it is true that even a complete takeover of school expenses by the state would reduce property taxes in the larger communities by only a fraction of the reduction in suburban and rural areas. School taxes in Boston are only 17 percent of total taxes. In some small communities, they reach as high as 90 percent. Suburban interests may be expected to defend to the very last their ability to offer superior, and therefore unequal, opportunities. Rural interests may well vote their pocketbooks, and they are not notably charitable toward the cities and in fact have many problems of their own. The opportunities for a consensus on the principles and irreconcilable differences on the details seem very great indeed.

I conclude therefore that there are enormous political problems to be overcome, even if the state does acquire a great deal more fiscal

[1] General Laws of Massachusetts, Chapter 70, section 4.

flexibility through the assumption of welfare costs by the Federal government.

Economic Influence of the Property Tax

In addition to the administrative and political problems, there are some profound economic problems in school financing that arise not just because of the number of dollars involved, but because of their traditional source, the local property tax. There is general agreement that the local property tax is cruel and regressive, and that its level is too high. It is a bad tax by almost any standard. Not the least of its ill effects has been that it has placed the interests of children in direct opposition to other interests in the cities and towns, so that its cruelty passes through to the children to the extent these other interests are taken into account.

In retrospect, it is curious irony that in our effort to put control of schools close to parents, we also put the control in communities which may or may not reflect the interests of the parents. After all, most towns do not reap the major social benefits of good education or suffer fully from its worst failures. The most successful products take advantage of upward and outward mobility. The most complete failures become wards of the state. At the same time, any municipal officer knows of many fine citizens undergoing real deprivation because of the property tax, and many have watched employment turn down as businessmen move or fail. If we had intentionally tried to pit the interests of children against such basic interests as jobs and enough money to keep a home, we could not have found a better means.

Against all these things, however, is a pragmatic maxim of public finance: An old tax is a good tax (or at least a far better alternative than a new tax). Once a tax has been a part of the economic structure for a long time, the adjustments of resource use tend to have been made. Thus, we have some very prosperous school districts in terms of valuation per school-attending child, because they voted to accept a generating plant in their district. Without the property tax and its relationship to school costs, who would accept the nuclear generator in his backyard? Having made the decision to accept it, is it reasonable for the state to take away the compensation? How will we get the generating sites, and for that matter all the industrial sites we need, if communities have less reason to accept them?

Or consider the fact that assessed valuation does not always correlate with income. Statistics show that many of the least affluent communities in Massachusetts, in terms of income per family, are on Cape Cod and the Islands, where our reliance on the property tax for financing of schools has in effect subsidized the growth of the area as a resort and a vacation home community. Thus, there are very large valuations per school-attending child which produce very low tax rates that benefit a number of otherwise very poor people. Could these communities stand a tax burden comparable to that of the rest of the state, not only in its effect on education but in withdrawing the indirect subsidization of their economic opportunities?

Also, it is worth noting that much of our pattern of residential development has, for good or ill, been shaped by property tax and school cost considerations. The consequences range from restrictive zoning, which tends to keep out any housing which cannot support the children that come with it, to the development of school-centered communities that seem almost to owe their existence and character to their common commitment to extraordinary excellence in education. It seems probable that the quality of their schools supports property values, despite the tax costs.

In sum, much of the pattern of physical and economic development of the state has been strongly shaped by the indirect consequences of the ties between property taxes and local school costs. We can only speculate at how many pieces will have to be picked up in areas unrelated to education if that connection is broken. It is clear that at the very least we will have to rethink a number of important policies involving economic development, housing, and land use.

Clearly, there are some dilemmas here. If we shift to a state property tax, as Mr. Capeless suggests,[2] we may work great hardship on some communities that are rich in property values but poor in terms of income. If we shift to an alternative tax, we may distribute windfalls, in property values if not in school programs. Whatever the case, a move from an old tax, however good, may let loose a whole string of consequences that can only be anticipated with great difficulty. This, of course, complicates the political problem enormously.

Surely you will forgive me if I point out that the cabinet form of organization now underway in Massachusetts should make it more feasible for us to deal with the complex interactions that a change in policy in one sector has on other sectors.

[2]See the paper by Robert T. Capeless in this volume.

Conclusions

From all these thoughts, I am forced to draw only cautious and cautionary conclusions.

First, the chances of developing substantial political support for any plan aimed at both a major increase in state financing of public education and a major move toward equalization of opportunity, will depend in very large part on new fiscal freedom that can only come from a Federal takeover, one way or another, of some state costs or responsibilities.

Second, I think no one can safely rely on court decisions to provide adequate direction or guidelines for a timely reform.

Third, we don't know and we will have to find out what new relationships between the State Department of Education and local school districts may be involved. Since local control is such a long and cherished tradition in Massachusetts, any program that substantially impinged on local control would suffer a loss of support, and yet we do not know how best to minimize that interference.

Fourth, much more than education is involved. We treat the matter solely as educational at peril not only to support for the program but to important factors affecting the entire future of the state.

Fifth and last, despite all the above, the cause is just and the time to begin is now; it will not get better later on. This is why we have an extraordinary problem of political leadership, why we need to draw on all our skills in the "art of the possible."

Alternative Support Patterns

TAX EQUITY AND EDUCATIONAL EQUALITY

Robert T. Capeless

It comes as a little jolt after all these years to confront NESDEC as a group of people, rather than as a mathematical formula for the distribution of state aid. Like the late Dean Acheson, I can claim to have been "In at the creation" – of the formula, that is, not the association of people. The NESDEC formula was first advanced publicly early in 1963, in Governor Endicott Peabody's tax message which, I am proud to say, I had a hand in writing.

It is amusing now to look back and recall the violently adverse public reaction to what by today's needs and standards was a modest step forward toward the goals of equal educational opportunity and tax reform. Modest or not, when adopted a few years later, the NESDEC formula was a positive step in the right direction, and a practical means of dealing with the needs and political realities of that period.

It may well be that a revised and expanded NESDEC formula is the best we can look for in the changed conditions of the 1970s, but I hope not. With the new dimension of threatened judicial mandate, perhaps the time has finally come when it is politically possible to carry out the large-scale change which tax equity and educational equality so obviously demand.

Because you are NESDEC, there is no need to delineate the problem we are talking about today. Its causes, its dimensions, the obstacles to its solution are painfully evident to all of us. There is a need for me, however, to set forth caveats about my principles and my approach to a solution, as to which we may not be fully agreed.

First, as a member of the Massachusetts Special Commission to Develop a Master Tax Plan, my primary concern is overall tax equity, which has as its goal equal taxes for equal levels of service in all areas of government, not education alone.

Second, like equality of educational opportunity, tax equity cannot be realized in isolation from overall equity.

Mr. Capeless, an attorney, is Chairman of the Subcommittee on Revenue Structure of the Massachusetts Special Commission to Develop a Master Tax Plan, and was Massachusetts State Tax Commissioner, 1958-61, and Mayor of Pittsfield, 1948-56.

Third, the power to set spending levels and the responsibility to tax must be placed at the same point as a simple matter of fiscal sanity, a consideration which virtually rules out massive state aid tied to individual local expenditures independently determined.

Fourth, a balanced revenue structure, without overdependence on any one tax, is necessary to any plan of tax equity and educational equality.

In the light of these principles it seems to me that really only two general approaches are open to us: the first, a restructuring of the functions of government, and the second, a restructuring of our revenue arrangements. Let me now comment briefly on the first and both explain and comment on the second.

Function Restructuring

The approach of function restructuring involves complete state financing of the cost of education and, as an absolutely necessary consequence, complete state determination of the levels of spending for education. After a horrendous interim period of reconciling the differences between high spending-high quality systems and low spending-low quality systems, this approach should achieve complete equality of educational opportunity or as near thereto as can be achieved. It would mean almost certainly an end to the absurdity of over 300 independent local systems in Massachusetts, and their replacement by a monolithic central agency or more probably by a system of large, sensibly balanced, and comparatively equal regional groupings. It would mean certainly an end to determination by local or regional groups of their own levels of spending. Local autonomy, if any, would be preserved only as to management and spending of funds allocated centrally on an equal basis.

Despite its vast revenue implications, such an approach is essentially one of educational policy, the thrust for which must come from those primarily concerned with public education and responsible for its quality in the Commonwealth. On that account, it is not a plan that should be advanced by the Master Tax Plan Commission. It is a plan, however, which this member of the Commission, at least, can certify as being wholly consistent with the Commission's program of revenue reform, and in fact one which cuts in half the problem to which revenue reform is directed. It is one which as a private citizen I tend to favor, a point of view no doubt influenced by past service as mayor of a city, bugged by the autonomy of the local school committee.

While a great step toward revenue reform, state assumption of the costs of education would still leave the local communities wholly dependent on their grossly unequal local property tax bases for support of at least 50 percent of the present cost of local government. In the case of the larger communities with limited property tax bases, the percentage would be substantially higher. Whether or not this other half of needed tax reform would be indefinitely postponed would depend in large part on the revenue sources chosen to support the state take-over of educational financing.

The take-over would require about $800 million more than the $500 million now provided in state aid. Therefore it seems to me to be politically impractical to look to present state-wide taxes alone for such additional support. With a present yield of about $1.4 billion, state taxes would have to be increased by about 60 percent. This includes all business taxes, already claimed to be unduly high. If the income tax and the sales tax alone were to be utilized to finance the increased state payments, both these major sources of revenue would require near doubling. Under these circumstances, therefore, it seems likely that this function restructuring change is possible only as part of revenue restructuring, proposed here as the alternative to it.

Revenue Restructuring

This alternative is exemplified in the tentative plan of the Master Tax Plan Commission. While wide variations on the plan are possible, their strengths and weaknesses can probably best be put in focus by analysis of the Commission's own plan.

The Plan

The plan entails a statutory commitment by the Commonwealth to support, by taxes imposed on a state-wide basis, not only 100 percent of the cost of state government but 80 percent of the aggregate costs of local government as well. The unequal local property tax bases would then support on the average only 20 percent of local spending, instead of the present 80 percent. Even 20 percent average local support would entail a residue of inequity, and the ideal solution would involve state support of 100 percent, a plan which is not as impractical as it might seem at first.

Financing the Plan

A commitment to finance 100 percent of the cost of state government and 80 percent of the aggregate cost of local government obviously is far too great to be met from existing state revenue sources. As noted above, assumption of the cost of education alone would entail a politically unrealistic increase of 60 percent in state taxes. The increase required to finance 80 percent of all local costs would be an unrealizable 110 percent.

Even if it were politically practical, there is serious question as to the wisdom of such a move from the standpoint of sound revenue policy. It would be a continuation of the present policy under which the use of specific revenue sources has mainly coincided with the placement of government functions, an arrangement which has resulted in the property tax situation we are now attempting to cure. The property tax is excessively high and grossly inequitable today because it is a local tax, supporting functions assigned to local government, which are far more expensive than those assigned to the state.

A break with this pattern is a first and fundamental requirement of revenue reform. Revenue source and function placement need to be divorced as fully as possible, consistent with principles of fiscal autonomy and fiscal responsibility. The Master Tax Plan Commission proposes to achieve this by adoption of a balanced structure of classes of taxes and their proportional contributions to total revenue, designed without regard to the level of government where such revenue will be spent.

So far as we know, no other state has ever considered such an approach. Elsewhere, as here in Massachusetts, the revenue structure has developed by happenstance and not by design, as the results clearly indicate. Certainly, given a clean slate to write on, no state would consciously select a revenue structure in which property taxes, and particularly local property taxes, would be called upon for 54 percent of total revenue and all state-wide taxes combined for only 46 percent. This is the Massachusetts situation.

If not 54 percent, what proportion should property taxes bear, and if not 14 percent and 16 percent, what share should consumer excises and the personal income tax contribute? There is no correct answer to those questions. When the Commission tentatively suggests that the property tax input be set at 40 percent, there is ample ground for reasonable men to argue that even 40 percent is too high,

and that 35 percent or even 25 percent would be more reasonable. It does not seem, however, that an input as low as 10 to 15 percent can be justified. That is the figure that would result from the plan proposed, if the state were to assume 80 percent of the aggregate cost of local government *and* the property tax remained a purely local tax.

Accordingly, the Commission is proposing:

1. A basic revenue policy providing for an input to state and local revenues from property taxes of 40 percent.
2. Power in the State Tax Commission to set the rates of state taxes annually at levels that will produce the required state revenue for state expenditures and 80 percent local aid, in the proportions for each tax group established by the basic revenue policy.
3. Adoption of a form of state property tax at the level required to bring property taxes, state and local combined, to the 40 percent support level.

The State Property Tax

Initially at least the state property tax would take a form which makes the use of that name somewhat inaccurate and misleading. The state property tax would be assessed not on individual property owners but on each city and town according to its equalized valuation. In effect it would be a revival of the old State Tax which the Commonwealth used to employ to meet its own deficits. In its revival it would be crucially different in its purpose, which would be to eliminate the gross inequities of a large-scale *local* property tax.

The fairness of such a tax-equalizing assessment, as it more properly should be called, would rest on an enormous improvement in the accuracy of the equalized valuation list. There exists no formula, method, or plan to guarantee such a result. It will develop, if at all, from the employment of more money, people, and skill in the development of the list. In this connection it should be noted that such a reform is going to be necessary in any plan for eliminating imbalance in property taxes among the various cities and towns. Equalized valuation will be a paramount factor, whether an expanded NESDEC formula, or its predecessor the foundation-type program, or any variation on them is used. Any large-scale program of state aid to localities has imbedded in it the equivalent of a statewide property tax, no matter how artfully camouflaged.

Methods of Distribution

Having substantially equalized tax contributions by using state-wide taxes to meet 80 percent of aggregate local costs, the Commonwealth could distribute the massive local aid fund so created solely with regard to local government needs, as measured by objective criteria uniformly applied. Specifically the Master Tax Plan Commission proposes the elementally simple method of distributing school aid on the basis of school child population and general government aid by total population.

It is conceded that such a distribution is too rough to be a completely fair one. Admittedly there are other variables not utilized in the formula which affect the level and cost of local government services, and therefore are a part of the measure of governmental need. However, two crucial questions would have to be posed and answered satisfactorily before writing any such factors into the distribution formula. First, is there an accurate and usable method of determining and gathering the data relevant to the factor? Second, is it practical to measure the amount such a factor adds to the cost of local government?

For example, an influx of non-resident workers in Boston, and one of non-resident summer visitors in Chatham, add something to the government costs of those two communities that is not reflected in their resident population figures. But how much for each worker and visitor, in proportion to total population and total government cost? And even if we know the amount with any degree of accuracy, how do we determine the numbers of workers or visitors not only for Boston and Chatham but for 349 other cities and towns as well? Various school factors evoke the same kind of questioning, most notably that of the number of children culturally deprived and otherwise affected by community poverty.

It seems to me that an enormous exercise of effort is involved in answering these questions, for a result that is significant only in a handful of cases. Far better then to treat these variations from the norm under special programs, and this is what the Commission proposes. Let general aid be as simple as possible; let highly specific aids for unusual situations continue to operate as they do now, as a supplement to the general aid program to correct the gross distortions which any such program necessarily will produce.

Local Autonomy

Beyond the level of state support averaging 80 percent of total costs, local governments including school committees would retain virtually complete autonomy as to their levels of spending. Of equal significance, they would retain it under conditions making them totally responsible for the relatively small residual local property tax they would require for expenditures above the level of state support. Under this plan, no single local decision to spend or not to spend would affect, except to a negligible degree, the amount of state aid to be received. At the same time, state aid in the aggregate would keep pace with rising local costs since 80 percent of the state-wide cost of local government would be the basis for the size of the local aid fund.

Local autonomy would of course have to be limited to some degree by state-wide standards relating to the scope and quality of local governmental services, particularly education. Such standards should be set for schools by the Department of Education. Hopefully the standards would be enforceable, and not established on the basis of aid or no aid, as they have been in the past.

Conclusion

The program just outlined, it seems to me, goes as far as can reasonably be expected toward equalizing tax sacrifice on the one hand and access to equal governmental service on the other, consistent with retention of local autonomy. It does not carry with it encouragement to spend, for education or anything else, except in the case of low quality school systems, which would be in a position to afford and would be compelled by standards to bring themselves up to the state-wide norm. For good reasons I do not regard this lack of encouragement to spend as a flaw in the system. To those who disagree, I would respectfully suggest that massive state aid with retained local autonomy is inconsistent with such encouragement.

WHAT WE HAVE ALREADY TRIED IN STATE-LOCAL SUPPORT SYSTEMS

Charles S. Benson

I would suggest that there are two important reasons to consider seriously state support formulas for elementary and secondary education, although the topic can be tedious. First, in the words of the California Supreme Court, "education is a fundamental interest and affects so deeply the lives of the rising generation." Second is the large amount of money that is involved. Elementary and secondary education, not including higher education, is the second largest function in the public sector and in 1969 required expenditures of $167 per capita. This can be compared with $418 per capita for defense and foreign relations in general, but there is nothing between the $418 and the $167. The next major expenditure is $78 per capita on highways.

If magnitude of resource commitment indicates significance of a service, then we must conclude that elementary and secondary education ranks high. It is at the same time a service whose cost rests mainly upon our fiscally weakest level of government. After the Federal government decides what it will provide the schools, and after state governments do likewise, it is then up to the localities to make an arrangement with the citizens and with the staff of the schools that all can live with. The proposals for full state funding would represent a sharp break with that practice. But mainly I want to talk about how some existing formulas are working today.

There are two main systems for state-local financing of schools in the United States – the foundation program plan, otherwise known as the "Strayer-Haig formula," and the percentage-equalizing plan, now sometimes called "district power equalizing." Both are based on the existence of taxing powers in the local school district, and in practice these local powers are chiefly exercised as levies on real

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property. The form of local taxes is basically irrelevant to the operation of the system of school finance, though admittedly some kinds of local taxes may be preferred to others. For example, local use of a supplement to state or Federal income taxes might be preferable to levies on real property.

The foundation program plan is in use in the states that so far have received *Serrano* type decisions – e.g., California, Minnesota, Texas, and New Jersey. There is probably no way that a foundation program plan, even in its more rigorous application, could meet the criterion that quality of education not be a function of local wealth. On the other hand, some persons, such as Professor John Coons of the School of Law, University of California, hold that district power equalizing, which is a rigorous revision of the kind of percentage-equalizing arrangements in use in Iowa, Massachusetts, New York, Pennsylvania, Rhode Island, and Vermont, could meet the criterion.

This paper discusses the ideas of these two alternate plans without reference to the details of arrangements in the New England States.

The Foundation Program Plan and the Cole Act of New York State

This approach to state aid for education dates from the work of the Educational Finance Inquiry Commission (1921-24). The volume of the Commission's report for New York State was prepared by George D. Strayer and Robert M. Haig; it offered what Professor Paul Mort described as the "conceptual basis" of present day practice in equalization.[1] With more or less important technical modifications, this fiscal device determines the allocation of school funds to local districts in the majority of states today.

In describing the practice of New York State in the early 1920's, Strayer and Haig stated:

> A precise description of the basis upon which federal and state money is apportioned among the localities is an elaborate undertaking. The present arrangements are the product of a long history of piecemeal legislation. The result is chaos.[2]

[1] See George D. Strayer and Robert M. Haig, *Financing of Education in the State of New York*, A Report Reviewed and Presented by the Educational Finance Inquiry Commission Under the Auspices of the American Council on Education, New York: The Macmillan Company, 1923. The statement of Professor Mort appears in Paul R. Mort, Walter C. Reusser, and John W. Polley, *Public School Finance*. New York: McGraw Hill Company, 3rd ed., 1960, p. 203.

[2] G. D. Strayer and R. M. Haig, *op. cit.*, p. 94.

The authors did provide, however, the following summary:

> Almost all of the state aid is distributed primarily on a per-teacher quota basis which varies with the classification of the school district and, in the case of one of the quotas, with the assessed valuation in the district. Approximately one-half of the state aid is entirely unaffected by the richness of the local economic resources back of the teacher, and the portion which is so affected is allocated in a manner which favors both the very rich and the very poor localities at the expense of those which are moderately well off.[3]

In moving toward their recommendation for a new fiscal arrangement, Strayer and Haig first stated:

> There exists today and has existed for many years a movement which has come to be known as the 'equalization of educational opportunity' or the 'equalization of school support.' These phrases are interpreted in various ways. In its most extreme form the interpretation is somewhat as follows: The state should insure equal educational facilities to every child within its borders at a uniform effort throughout the state in terms of the burden of taxation; the tax burden of education should throughout the state be uniform in relation to taxpaying ability, and the provision of the schools should be uniform in relation to the educable population desiring education.[4]

This has a modern ring as far as the prescription about tax burden goes. However, it is no longer possible to believe that "equal educational facilities" represent "equalization of educational opportunity." It is now recognized that equality of purchased inputs does not, on the average, produce equality of education outputs as between the different groups of our society. Put another way, it is held today that the learning requirements of one student may be different from those of another, and that an educational program to allow the first to develop his abilities in high degree may be more or less expensive than a similar program for the second student.

Nevertheless, let us proceed with the development of the Strayer-Haig formula. The authors proposed, finally, the following state-local system of support:

[3] *Ibid.*, p. 162.

[4] *Ibid.*, p. 173.

> To carry into effect the principle of 'equalization of educational opportunity' and 'equalization of school support' . . . it would be necessary (1) to establish schools or make other arrangements sufficient to furnish the children in every locality within the state with equal educational opportunities *up to some prescribed minimum;* (2) to raise the funds necessary for this purpose by local or state taxation adjusted in such manner as to bear upon the people in all localities at the same rate in relation to their taxpaying ability; and (3) to provide adequately either for the supervision and control of all the schools, or for their direct administration, by a state department of education.[5]

Note that the authors have now replaced "equal educational facilities" by the notion of equality *"up to some prescribed minimum."* But note they suggest also that some schools may be directly administered by the state department of education. One of the drawbacks of educational practice in New York State, for example, is that a school which is obviously and grossly failing to meet the needs of its students is allowed to continue under the same local district management year after year. This particular suggestion of Strayer and Haig has not yet been taken much into account.

The proposal for the new system of state-local finance was next put into the following specific form.

> The essentials are that there should be uniformity in the rates of school taxation levied to provide the satisfactory minimum offering and that there should be such a degree of state control over the expenditure of the proceeds of school taxes as may be necessary to insure that the satisfactory minimum offering shall be made at reasonable cost. Since costs vary from place to place in the state, and bear diverse relationships to the taxpaying abilities of the various districts, the achievement of uniformity would involve the following:
>
> (1) A local school tax in support of the satisfactory minimum offering would be levied in each district at a rate which would provide the necessary funds for that purpose in the richest district.
>
> (2) This richest district then might raise all of its school money by means of the local tax, assuming that a satisfactory tax, capable of being locally administered, could be devised.
>
> (3) Every other district could be permitted to levy a local tax at the same rate and apply the proceeds toward the cost of schools, but
>
> (4) since the rate is uniform, their tax would be sufficient to meet the costs only in the richest districts and the deficiencies would be made up by state subventions.[6]

[5] *Ibid.*, pp. 174-75.

[6] *Ibid.*

An example may help clarify the plan. Suppose it is determined (just how remains a problem to this day) that a "satisfactory minimum offering" costs $1,200 per student per year. Suppose further that the richest district has an assessed valuation of $40,000 per student. Then a levy of $3.00 per hundred of assessed valuation will finance the school program in the richest district. All districts would be expected to tax themselves at the $3.00-per-hundred rate or higher. Every district but the richest would receive some state aid. How much? Just enough to meet the deficiency between the yield of the $3.00-per-hundred levy and the cost of the satisfactory minimum offering. A district with $39,000 of assessed valuation per student would receive $30 per student from the state. A district with only $2,000 per student of assessed valuation would receive from the state $1,140 for each of its students. All districts could provide the minimum offering, then, while paying a local tax at no higher rate than would be paid for a $1,200 program in the richest district.

The Strayer-Haig proposal was translated into legislative form by Professor Paul Mort in a report to the Special Joint Committee on Taxation and Retrenchment (Davenport Committee) in 1925. The cost of the "foundation" or basic program was estimated at $70 per student. The local contribution rate was set at 1.5 mills per dollar of the full value of property. It was further provided that no district should receive less state aid than it had formerly received. This proposal, the Cole Law, was adopted by the Legislature in 1925.

Mort's simple proposal was subject to much adjustment. The dollars-per-student measure of local district need was quickly changed into a dollars-per-teacher measure. The local contribution rate was revised periodically. Though Professor Mort had been against the state's offering financial incentives to local districts to spend money on schools, an incentive provision was built into the system so that districts did not receive the full amount of equalization money to which they were otherwise entitled unless they were spending not 1.5 mills of local tax levy for schools but 5 mills. Nonetheless, the main features of the plan were those sketched by Professors Strayer and Haig – and so they remain in the plan in use today.

Some Imperfections in Application of the Foundation Program Plan

In practice, the Strayer-Haig system of state-local finance has a number of drawbacks.

1. States which use the plan often leave their school districts in a

relatively unequalized condition. That is, some low-wealth districts find it necessary to levy a local tax at a high rate to produce low-expenditure per student programs, while at the same time rich districts are able to provide themselves with high-expenditure per student programs at low tax rates. Thus, the relation between quality of school program provided in different districts as measured by dollar expenditure per student and local tax effort is inverse, rather than direct. A body of legal experts across the country is now questioning whether such a condition – a condition, essentially, under which the state dispenses public education services according to the wealth of districts it itself has created – is constitutionally suspect under equal protection guarantees of state and Federal constitutions.[7]

It might appear strange that a fiscal device whose chief object is "equalization" fails so notably on an equity standard. There are at least three reasons why the result is obtained.

First, the dollar value of the minimum educational offering is commonly set so low that many districts, rich and poor alike, find it necessary to exceed it. Above the value of the minimum offering or foundation program, the inter-district differences in assessed valuation per student have their full effect. Suppose, for example, the value of the minimum offering is $1,200 per student and two districts, call them A and B, each elect to spend $1,600 per student. Let assessed valuation per student in A be $20,000 and in B $5,000. The extra tax rate effort to advance expenditures from $1,200 to $1,600 per student is $2.00 per hundred in A and $8.00 per hundred in B. Suppose B could advance its rate only by $4.00 per hundred, taking account of local fiscal realities, not to mention possible legal constraints imposed by tax limitations. It would provide only one half the supplementary program of A, at twice the supplementary tax rate.

Second, the local contribution rate is seldom set at that rate which would pay for the foundation program in the richest district. Given the very unequal distribution of non-residential properties, the richest district (on an assessed valuation per student basis) is likely to be very rich indeed, and the mandatory local contribution rate would be very small. The result in a literal reading of the Strayer-Haig formula would be that the state government would be paying for

[7]See Frank I. Michelman, "Foreword: On Protecting the Poor Through the Fourteenth Amendment," The Supreme Court, 1968 Term, *Harvard Law Review*, November, 1969, esp. pp. 33-59.

about all of education services. To avoid this result, a higher local contribution rate is chosen than that which would raise the value of the foundation program in the richest district.

Third, theoretically those rich districts which raise *more* than the value of the foundation program per student at the standard local contribution rate should turn that excess over to the state for redistribution to poorer districts. The contrary happens, in that such districts, no matter how wealthy they are, are given a "flat grant" per student. The result is anti-equalizing. If one should take the simple position that equity would prevail if the flat grant were abolished, then one must reckon with the fact that several major cities of the country, e.g., New York and San Francisco, are in effect flat grant districts. Hence, simple-minded reform runs in the face of common sense observation of the fiscal plight of large cities.

2. It continues to be difficult to recognize necessary differences in costs for different categories of students. The state aid program does little to encourage districts to meet the needs of non-English speaking students, for example. In the common practice of computing aid, high school students are weighted by a factor such as 1.25 and elementary students by 1.00. However, there is a growing feeling that the primary school years, not the secondary, are the points at which incremental resources should be concentrated. The "sparsity correction" is not really a correction for such extra costs as transport, but a reward for maintaining school districts of uneconomically small size. And so on.

3. The existence and widespread adoption of the so-called equalizing formulas appear to have encouraged state governments to abdicate to local districts their responsibility for the hard questions in education. Much is placed in the education code about which courses are to be taught in the various grades and about certification of teachers, but nothing definitive is said about the quality of the program to be laid before different categories of students. Such decisions are left to the local authorities on the ground that local people have had their fiscal resources "equalized," and hence are in a good position to use their knowledge of their students to develop the programs they need. Neither assertion is fully justified. Moreover, legislators' attention is distracted from specifying objectives of educational programs and concomitant resource requirements, toward scrutinizing proposed reforms of the equalization formula to see how many extra dollars might come to the home district.

As mentioned above, there is probably no way that a foundation program plan could meet the *Serrano* criterion that quality of edu-

cation not be a function of local wealth. Consider the rigorous version which holds that the state shall establish a sum of money which represents a proper level of expenditure per student per year. The state will determine the tax rate at which the richest local authority would just raise that sum of money per student. The state will arrange with all the authorities that it meet the gap between this recognized level of need and what is raised when local authorities apply the tax rate that would simply allow the richest district to break even.

Why is this not suitable under *Serrano*? It is implicit in the foundation program plan that the state does not demand all districts to accept its judgment of the proper amount of money to spend per student. Thus the state imposes a ceiling on state aid to local authorities, while not imposing a ceiling on local levels of expenditure. Clearly, rich districts can go beyond the ceiling using smaller increases in local tax rates than can poor districts. Hence one runs immediately into a violation of the *Serrano* criterion that local expenditures not be a function of local wealth. Because the traditional foundation program plan still used in the majority of states cannot meet *Serrano* standards except by being adapted into a full state funding program, we should consider what I called earlier percentage-equalizing grants. There are those who hold that a rigorous version of percentage-equalizing grants would meet the criterion of *Serrano*.

Percentage-Equalizing Grants

These were established in England in 1917 and proposed for the state governments of our country by Harlan Updegraff in 1919.[8] The idea is that the state government *shares* in the costs of a local program of education, with the costs themselves being locally determined and with the state's sharing ratio being higher in poor districts than rich. In its complete implementation, the grant assures that any two districts which levy the same local tax rate for schools have precisely the same dollars per student to spend, regardless of their local wealth. This is the basis upon which the arrangement is said to meet the criterion of *Serrano*. The local price of educational services is equalized regarding tax rate. For reasons that will become clear, nowhere has this grant system been fully implemented.

[8] Harlan Updegraff, *Application of State Funds to the Aid of Local Schools*. Philadelphia: University of Pennsylvania Press, 1919.

The operation of the grant can most easily be described as follows. Let state aid to a given district be determined by the formula:

$$A_1 = \left[1 - \left(0.5 \cdot \frac{\text{assessed valuation per student in the district}}{\text{assessed valuation per student in the state}} \right) \right] \cdot \text{Expenditures in the District}$$

Suppose statewide assessed valuation per student is \$20,000. Let assessed valuation per student in school district 1, a relatively wealthy district, be \$30,000. In school district 2, a poor district, let the corresponding figure be \$10,000. Suppose further that both districts, the rich one and the poor one, wish to spend \$1,000 per student in their public school programs. Let enrollment in district 1 be 5,000 and in district 2, let it be 10,000. Obviously, total expenditure in district 1 is intended to be \$5,000,000 (5,000 students times \$1,000 per student) and total expenditure in district 2 is to be \$10,000,000. Let us compute state aid and local tax rates.

TABLE I
COMPARISON OF EXAMPLE DISTRICTS

	District 1	District 2	District 3
Enrollment	5,000	10,000	5,000
Assessed Valuation per Student	\$ 30,000	\$ 10,000	\$ 60,000
Expenditure per Student	\$ 1,000	\$ 1,000	\$ 1,000
Total Assessed Valuation	\$150,000,000	\$100,000,000	\$300,000,000
Total Expenditures	\$ 5,000,000	\$ 10,000,000	\$ 5,000,000
Total State Aid	\$ 1,250,000	\$ 7,500,000	\$ - 2,500,000
Local Tax Rate	\$2.50 per \$100 of Assessed Valuation	\$2.50 per \$100 of Assessed Valuation	\$2.50 per \$100 of Assessed Valuation

For District 1

$$A_1 = \left[1 - \left(0.5 \cdot \frac{30{,}000}{20{,}000} \right) \right] \cdot \$5{,}000{,}000 = (1 - 0.75) \cdot \$5{,}000{,}000$$
$$= 0.25 \cdot \$5{,}000{,}000 = \$1{,}250{,}000$$

Local Expenditure in District 1 = Total Expenditure - State Aid = \$5,000,000 - \$1,250,000 = \$3,750,000
Tax Rate in District 1 = Local Expenditure/Tax Base = \$3,750,000/ \$150,000,000 = \$2.50 per \$100 of assessed valuation

For District 2

$$A_2 = \left[1 - \left(0.5 \cdot \frac{10{,}000}{20{,}000} \right) \right] \cdot \$10{,}000{,}000 = (1 - 0.25) \cdot \$10{,}000{,}000$$

$$= 0.75 \cdot \$10{,}000{,}000 = \$7{,}500{,}000$$

Local Expenditure in District 2 = Total Expenditure - State Aid = \$10,000,000 - \$7,500,000 = \$2,500,000
Tax Rate in District 2 = Local Expenditure/Tax Base = \$2,500,000/ \$100,000,000 = \$2.50 per \$100 of assessed valuation

The local tax rates in districts 1 and 2 are the same — \$2.50 per \$100 of assessed valuation, even though district 2 has only one-third the wealth per student of district 1 and even though district 2, the poor district, is twice as large as district 1, the rich district. Under a fully operational percentage-equalizing grant the rule holds: any set of districts that chooses the same expenditure level per student will obtain that expenditure at equal local tax rates, regardless of the wealth of the districts.

This kind of relation between the state and local authorities, a relation under which, in effect, the "price" of educational services stands in a precise one-to-one status with expenditures, has been hailed as an achievement in equity. Surely such a system would be preferable to one under which poor districts must submit to high tax rates to finance meager programs while rich districts provide themselves with lavish school programs at low tax rates. However, it is extremely difficult to put a percentage-equalizing grant fully into operation. Here are two reasons.

First, differences in assessed valuation per student vary in much wider range than shown in our previous example, where district 1 has

three times the wealth per student of district 2. It is not uncommon to find that the differences run as high as ten to one. So suppose we add to our previous example a district 3, having 5,000 students, an expenditure of $1,000 per student, and an assessed valuation per student of $60,000. The formula would read:

For District 3

$$A_3 = \left[1 - \left(0.5 \cdot \frac{60{,}000}{20{,}000}\right)\right] \cdot \$5{,}000{,}000$$
$$= (1 - 1.5) \cdot \$5{,}000{,}000$$
$$= -0.5 \cdot \$5{,}000{,}000 = -\$2{,}500{,}000$$

Local Expenditure in District 3 = Total Expenditure - State Aid =
$5,000,000 - (-$2,500,000) = $5,000,000 + $2,500,000 = $7,500,000
Tax Rate in District 3 =
$7,500,000/$300,000,000 = $2.50 per $100 of assessed valuation

The formula produces a negative aid ratio of -0.5. This means that district 3 must be expected to pay for its school program in full *and* make a contribution of $2,500,000 from its own local taxes to the other districts of the state! State governments are not generally inclined to demand such self-sacrifice of rich areas.[9] Instead they provide a minimum school aid grant to districts, even the very richest. In New York the minimum grant per student in 1971-72 is $310 per student in weighted average daily attendance.

[9] If the coefficients of 0.5 in the state aid formula were reduced to 0.1, then the negative grant implied in the original formula would disappear, i.e.,

$$A_3 = \left[1 - \left(0.1 \cdot \frac{60{,}000}{20{,}000}\right)\right] \cdot \$5{,}000{,}000$$
$$= (1 - 0.3) \cdot \$5{,}000{,}000$$
$$= 0.7 \cdot \$5{,}000{,}000 = \$3{,}500{,}000$$

District 3 now receives state aid for schools in the amount of $3,500,000, instead of (theoretically) being charged $2,500,000. However, as the coefficient is reduced from 0.5 toward 0.1, the state share of total educational spending rises, for the state share is given by (1 - 0.5) = 0.5 or (1 - 0.1) = 0.9, or, in general, by (1 - x). This last example, where x = 0.1, implies 90 percent state support – in effect, full state assumption of costs. Thus, the only way the percentage-equalizing grant can accommodate extreme ranges in local assessed valuations per student is by establishing state assumption of educational costs.

Second, for the percentage-equalizing grant to be fully operational in the sense of matching up tax rates and expenditures, it is implied that one of two conditions must hold: either the state places a ceiling on educational expenditures per student that applies to all districts, or the state shares in educational expenditures with districts at whatever level of spending the local districts choose. The first option is called "district power equalizing."[10] I would like to point out that the version of district power equalizing that Professor Coons is advocating implies a ceiling on expenditures in the districts.

Some people would wish to preserve the kind of local freedom to spend we have now. That is another version: the fully equalizing percentage grant without a ceiling. Consider this second option – namely, that the state share in locally-chosen expenditure levels without limit. This is seen by some state officials as giving local districts a "blank check." It is a troublesome problem, moreover, because aid ratios can rise to 90 percent and above, meaning that poor local authorities can buy expensive educational programs with 10 cents per dollar or less of local money. Only in Wisconsin and Utah – and only under the constraint of rigid audit procedures – has there been serious experimentation with major open-ended grant programs.

The course commonly chosen by states that have used the percentage-equalizing grant is to provide for state sharing of locally-determined expenditures *up to a point* ($860 per student in weighted average daily attendance in New York) but not beyond that point, while at the same time allowing districts to exceed the state-sharing maximum if they wish. The result of this compromise is to make the percentage-equalizing grant into a foundation program plan for all practical purposes, especially when, as in the case of New York, most districts actually do spend beyond the point at which the state stops its contribution. In effect, the $860 upper limit of sharing in New York State is the cost of the foundation program per student.

Using our simple examples of the three districts, let us see the effect on local tax rates of the combination of a minimum grant of $300 per student and a ceiling on state sharing of $1,000 per student. Assume all figures as before, *except* that a minimum grant of $300 per student is provided *and except* that all three districts now decide to spend not $1,000 per student but $1,200 (the state ceiling for sharing, as noted, is assumed to be $1,000).

[10] John E. Coons, William H. Clune, III, and Stephen D. Sugarman, *Private Wealth and Public Education*, Cambridge: Harvard University Press, 1970.

TABLE II

COMPARISON OF EXAMPLE DISTRICTS WITH MINIMUM GRANT AND STATE AID CEILING PROVISIONS

	District 1	District 2	District 3
Enrollment	5,000	10,000	5,000
Assessed Valuation per Student	$ 30,000	$ 10,000	$ 60,000
Expenditure per Student	$ 1,200	$ 1,200	$ 1,200
Ceiling on State Sharing	$ 1,000	$ 1,000	$ 1,000
Minimum State Grant per Student	$ 300	$ 300	$ 300
Total Assessed Valuation	$150,000,000	$100,000,000	$300,000,000
Total Expenditures	$ 6,000,000	$ 12,000,000	$ 6,000,000
Total State Aid	$ 1,500,000	$ 7,500,000	$ 1,500,000
Local Tax Rate	$3.00 per $100 of Assessed Valuation	$4.50 per $100 of Assessed Valuation	$1.50 per $100 of Assessed Valuation

For District 1

$$A_1 = \left[1 - \left(0.5 \cdot \frac{30,000}{20,000}\right)\right] \cdot \$5,000,000$$

$$= 0.25 \cdot \$5,000,000 = \$1,250,000$$

This computation reflects the fact that only $1,000 per student is recognized for state sharing; however, the computed amount of aid, $1,250,000, falls short of the district's minimum aid of $300 (5,000 students · $300 = $1,500,000). So A_1 = $1,500,000 *NOT* $1,250,000 as the formula suggests.

Local Expenditure in District 1 = $6,000,000 - $1,500,000 = $4,500,000

This computation reflects the fact that the district is now spending $1,200 per student ($1,200 · 5,000 students = $6,000,000). Tax rate in District 1 = $4,500,000/$150,000,000 = $3.00 per $100 of assessed valuation.

For District 2

$$A_2 = \left[1 - \left(0.5 \cdot \frac{10,000}{20,000}\right)\right] \cdot \$10,000,000$$

$$= 0.75 \cdot \$10,000,000 = \$7,500,000$$

Aid remains the same as in the previous example.
Local Expenditure in District 2 =
\$12,000,000 - \$7,500,000 = \$4,500,000
Tax Rate in District 2 =
\$4,500,000/\$100,000,000 = \$4.50 per \$100 of assessed valuation

To provide the same quality program, District 2 must now sustain a tax rate 50 percent higher than in District 1.

For District 3

$$A_3 = \left[1 - \left(0.5 \cdot \frac{60,000}{20,000}\right)\right] \cdot \$5,000,000$$

$$= -0.5 \cdot \$5,000,000 = -\$2,500,000$$

However, the minimum grant comes into play and District 3 receives a sum determined as 5,000 students times \$300.
A_3 = \$1,500,000, *NOT* - \$2,500,000 as the formula suggests.

Local Expenditure in District 3 =
\$6,000,000 - \$1,500,000 = \$4,500,000
Tax Rate in District 3 =
\$4,500,000/\$300,000,000 = \$1.50 per \$100 of assessed valuation

Note that the three districts which have equal expenditures per student now have unequal tax rates, and the richer the district, the lower the rate. The percentage-equalizing plan is no longer meeting *Serrano*-type standards. This is precisely what has gone wrong with the state equalizing plans in use today, which provide a minimum grant per student. States have also put ceilings on the expenditures per student that the state will recognize for reimbursement or sharing. As districts move above the ceiling, clearly these extra or marginal expenditures are going to fall much more heavily on a low wealth district than on a high wealth district.

Suppose, finally, that District 3 chose to spend $2,000 per student. Its budget would rise to $10,000,000. Its state aid would hold constant at $1,500,000, and its tax rate would be $8,500,000/$300.000,000 = $2.83 per $100 of assessed valuation. Rich District 3 thus would spend $800 more per student than the poor District 2, but its tax rate would be $1.67 per $100 lower! This demonstrates the inverse relationship between expenditures and tax rates that is characteristic of most state aid systems in the United States. And that is the situation that the courts have been complaining about.

The formula now in use in New York State for distributing $1,672 million (70 percent of total state assistance for public elementary and secondary education) is of the form just described. Specifically, aid to a given district is

$$A_1 = \left[1 - \left(0.51 \cdot \frac{\text{district valuation per student}}{\text{state average valuation per student}} \right) \right] \cdot E$$

where E = approved operating expenses, subject to an upper limit of $860 per student and subject further to a minimum grant of $310 per student. It has been suggested that one of the problems of the state-local financial relationship is that state governments have been miserly. Now it is hard to condemn New York State for being miserly. New York State distributes roughly 49 percent of public elementary and secondary education expenditures in the state in the form of state aid, and this is about $2.5 billion per year. Given a percentage-equalizing grant and such substantial state contributions, what are the results? Take a geographically bounded area, namely Long Island, because otherwise local fiscal responsibilities and costs can vary too much. Long Island is small and has a dense population. It has some 600,000 public school students. Between places that are almost cheek by jowl, expenditures per student per year vary by a thousand dollars. You have the inverse tax rate situation which was criticized in *Serrano*.

One can go beyond this to categorize grants on the basis of distribution. That is, if following the equity notion in percentage-equalizing grants, there should be a clear relationship between local tax rates and percentage expenditure per student, then if one district is 10 percent above the regional average in tax rate it should have money to spend equal to 10 percent above the state average expenditure per student. I mean a 1:1 relation. Districts on Long Island can be classified on the basis of this relationship and put in the categories of winners and losers. The winners have expenditures per

student higher than their local tax rates would justify, and losers obviously have less money to spend than their tax rates would justify. It turns out that the largest districts on Long Island, namely Levittown and Hicksville, are losers and the middle to small rich districts are winners. Furthermore, some 70 percent of the public school students on Long Island attend schools in districts that are losers. This has political implications in terms of some new alignments in support of full state funding, under which that state can limit the amount spent per student.

My conclusion from this is that it would be difficult to solve the problems of educational finance in New England simply by laying more money on the kind of percentage-equalizing grants that you have been using. New York uses that same kind of percentage-equalizing grant and it places, relatively speaking, much more money on it than you have been doing in New England. And yet, the results in New York State are such that if the people who make up the Supreme Court of California had happened to be in New York, they would have found the same data to make their case. The point is, percentage equalizing in the currently politically acceptable form – that is, with a ceiling on expenditures so as not to give districts a blank check and a minimum grant so as to provide everybody with something – leads to a situation which is almost guaranteed to give this inverse relation between the tax rates in the districts and the levels of their wealth: high tax rates in poor districts and relatively low tax rates in rich districts.

Imagine that a state government set out to meet three objectives in its education finance policy: (1) equity, as measured by a plan that would give districts equal spending power per student at equal tax rates, a kind of interpretation of this *Serrano* rule; (2) local choice without limit in the amount of educational spending districts wished to undertake, which prevails most often today as far as the states are concerned; and (3) protection of the state budget (i.e., avoidance of giving away "blank checks"). Reflection will indicate that the three objectives are incompatible, though any two are attainable. One can have equity through a fully operational percentage-equalizing grant, and full local choice over level of spending, but the state budget will be unprotected. One can have a protected state budget and local freedom to spend, but equity will be sacrificed for the reason that expenditures in excess of the state maximum grant will fall with much greater severity on the tax rates of poor districts than of rich. One can have a protected state budget and equity, but local freedom to raise expenditures beyond a state-imposed limit is sacrificed.

If the choice is the last of the three, then one must decide finally between the constrained version of the percentage-equalizing grant (district power equalizing) or full state funding. The writer feels this final choice is one that should hang on the question of which plan deals most favorably with large cities. The answer to that question, of course, is the subject of another paper, as is also the question of whether tastes of adults for particular public services should determine differential opportunities for development of members of the rising generation who live in the different towns o ‹ given state.

It might also be possible to have a reasonably equitable percentage-equalizing grant and considerable local discretion to spend if one could reduce the range of wealth among the districts of the state – that is, the wealth per student. One way to do this might be to shift the basis of local support for education from property values to a surtax on Federal or state income tax returns. This would get one away from the problem of the concentrations of industrial and commercial properties and profits – which is quite distinct from the concentrations of students. The use of a surtax on Federal income tax returns is something to begin to think about. It may be a quick loser, but there should be exploration.

ALTERNATIVE FEDERAL ROLES IN SCHOOL FINANCE

William G. Colman

The President's Commission on School Finance was established in the early summer of 1970 and was charged with exploring thoroughly the major aspects of educational finance and educational reform. The Commission has chartered over 20 research projects covering such fields as intergovernmental relations and the governance of education; public interest in and public support of non-public schools; current and possible revenue sources for education; educational effectiveness and its relationship to educational finance; problems of the inner city schools; early childhood education, and technological innovations in education, to name a few.

It was the desire of the President that we not limit ourselves to financial issues. In his Message to the Congress of March 3, 1970, in which he announced his intention to establish the Commission, President Nixon said:

> A new reality in American education can mark the beginning of an era of reform and progress for those who teach and those who learn. Our schools have served us nobly for centuries; to carry that tradition forward, the decade of the 1970s calls for thoughtful redirection to improve our ability to make up for environmental deficiencies among the poor; for long-range provisions for financial support of schools; for more efficient use of the dollars spent on education; for structural reforms to accommodate new discoveries; and for the enhancement of learning before and beyond the school .... We must make the nation aware of the dilemmas our schools face, new methods of organization and finance must be found, and public and non-public schools should together begin to chart the fiscal course of their educational planning for the Seventies.

The Commission is chaired by Neil McElroy, former Secretary of Defense. Some of the other members are John Davis and Bert Thompson, public school superintendents of Minneapolis and Greenville, Mississippi, respectively; David Kurtzman, Pennsylvania

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Secretary of Education; John Fischer, President of Columbia University Teachers College; William Saltonstall, Massachusetts private educator; Clarence Walton, President, Catholic University; Warren Knowles, former Wisconsin governor; Wendell Pierce, Director of the Education Commission of the States; Dorothy Ford of the Los Angeles County school system; Duane Matheias, Associate Commissioner of Education, and several others.

The Commission has met about 15 times in two-day sessions; in addition, one or more members have kept in close touch with each of the research projects. We have nearly completed action on a "semi-final report once removed." In a couple of weeks we will act on a semi-final draft and we anticipate finishing all of our work except for printing and formal transmittal by early February.

The Commission will be making a number of recommendations to local boards of education concerning school governance; it will be making others to governors, state legislatures, and state education agencies; it will be making still other recommendations to the President, the Congress, and the Commissioner of Education. I will focus here on the Federal role in school finance, not to speak for the Commission or to present its recommendations, for the timing is not right for that, but rather to describe some of the major alternatives for Federal action and indicate some of the advantages and disadvantages of each.

1. *General unearmarked aid.* This type of aid has long been the pet project of many national education associations. Essentially such aid would be added to the present categorical programs, and its magnitude would be such as to raise the Federal share of funding elementary and secondary schools from its present 6 percent to the neighborhood of 20-40 percent. This might be done out of general Federal revenues or from the proceeds of a special Federal tax.

2. *Expansion of functional aids.* Such expansion is favored by many program administrators at state and local levels and by a considerable number of education-oriented Congressmen and Senators. This approach could also bring the Federal share up to the 20-40 percent range.

3. *Incentive grants to help states achieve full state funding.* This alternative would relieve the local property tax base of most school costs and would help the states to readjust state revenues in order to meet the added costs of financing schools. The grants could be either transitional or a more permanent type of support. They could be as modest or as drastic as framers desired, but the most likely long-range effect would be to double the present Federal share, with the added funds of the unearmarked variety.

4. *A tax reform program.* This alternative would provide a package of tax credits to encourage states to use the income tax and to remove the major regressive aspects of sales and property taxes. The most frequent recent estimates of the cost of such a program range from \$5-\$7 billion. The Mills version of revenue sharing includes the equivalent of a \$2 billion part of this tax reform program.

5. *A revenue bolstering and expenditure easing program.* This approach envisions a full Federal takeover of welfare and Medicaid and a general Federal revenue-sharing program, beginning at \$5 billion and going to \$10 billion. This would provide \$12-\$20 billion for state governments and would thus enable them to take over local education costs. Federal aid to education would continue at about its present percentage of total education costs.

All of the foregoing alternatives have their advocates and critics. Educators would generally favor the first two: general unearmarked aid to education or a big expansion in categorical aid. Many governors and state legislative leaders would favor tax credits, welfare takeover, and general revenue sharing. It is quite likely that in this, as in many other areas of intergovernmental relations, the result will be a marble cake or a combination salad depending on whether the intended result is a feast or a diet.

It should be noted at this juncture that the effect of state tax policy on local taxes is belatedly claiming legislative attention. Perhaps the most noteworthy effort in this connection is the work of the Massachusetts Special Commission to Develop a Master Tax Plan.[1] The major proposal of the Master Tax Plan would fix by law the relative amounts of revenue to be raised by the three major taxes: property, income, and sales. This would be done by a commission composed of members of the state legislative and executive branches and representatives of local government, empowered to establish the tax rates necessary to maintain the relationships among tax sources on a year-by-year basis.

The underlying premise of the Master Tax Plan is that the legislature must henceforth consider both the public services the state-local revenue system will support and the quality of the major tax measures that comprise the revenue system. The property tax would no longer be used, in effect, as the residual tax instrument to fill the gap between an established expenditure level and available revenue from non-property tax sources.

[1] See the paper by Robert T. Capeless in this volume.

The growth of Federal aid and the insistent state-local demand for more of it have spurred policymakers at all governmental levels to give more consideration to the impact of Federal policies on state-local fiscal problems. For example, Congressional action on welfare reform, revenue sharing, or direct aid to schools or cities might so alter the tasks assigned traditionally to the state-local revenue system as to undermine all efforts to increase reliance on state personal income taxation.

Indeed, the decisions of Congress on Federal policy proposals now under discussion will have a profound impact on the role of the states in the Federal system. A massive increase in Federal aid to local schools, for example, introduces a new element in the debate on how to redress the fiscal imbalance among government levels. Not only would a dramatic increase in Federal aid to education rival other major Federal fiscal moves, but massive aid to education would also sharpen the debate over the form Federal aid should take.

There is general agreement among educators and political leaders that a moderate degree of consolidation should take place in present Federal functional grants for education. Despite this general agreement, consolidation will be hard to achieve because special interests that are protected by earmarked categories fear the verdict of the educational-political marketplace where priorities would otherwise be determined.

The final resolution of Federal aid approaches and the degree of categorical consolidation will depend in considerable measure upon the relative importance assigned to the many major challenges confronting the nation, its states, cities, and neighborhood schools. My own assessment of priorities would run something like this.

Save the inner city schools: Public education in all of the United States is in a time of trial, but for inner city schools it is a time of peril! Until these schools become institutions to be proud of instead of something to escape, the cycle of blight, decline, and abandonment will continue in our central cities – a cycle that threatens the very fabric of our society. Old buildings must be replaced, discipline and safety restored, highly qualified and dedicated principals and teachers specially recruited, and links with parents and neighborhoods created and strengthened. Parochial and other private schools serving the central city poor must be preserved. Personally, I would place the inner city schools not only at the head of an "educational priority list" but at the top of the multitude of issues of domestic government confronting the country. The number of schools and students in this category is so large that I question seriously the

capacity of the American body politic to withstand the cancer of despair, delinquency, and degeneracy that spreads inexorably from the tragic failures of these schools.

Restore fiscal balance to the American Federal system so that our states, counties, and cities may again assume some self-determination, instead of being manoeuvered by narrowly categorized grants-in-aid from higher levels of government. This means a strong income tax and a strong sales tax at the state level and a strong state-supervised property tax for the use of local governments, with welfare and income maintenance totally a Federal responsibility and school finance predominantly a state responsibility.

Assurance of equality of educational opportunity is required in terms of the fiscal resources behind each child, taking into account differential costs of educating different categories of youngsters. Today those children needing education the most are receiving the least!

Early childhood education is needed to help provide equality of educational opportunity.

Reorientation of educational values in our society must be achieved, so that career and vocational education assumes a major and respected role and uses at least half our resources for secondary education, ending its status of second-class citizenship in the educational hierarchy.

Reform of educational governance should include year-round schools, community schools, and schools without walls.

Overhaul of the teaching profession should include incentives for early retirement and tenure modification, so that the level of teacher competence can be raised while dealing fairly with individuals; teacher training and certification can be modernized and the pupil-teacher ratio dethroned as the be-all and end-all of local school budgeting.

The list could go on, but this one illustrates the need for a non-doctrinaire approach to the general subject of financing our schools. Undoubtedly we are at the threshold of a revolution in school finance. Primary reliance can no longer be placed on local tax sources; there is growing agreement across the country that substantially full state funding of the non-Federal share of education costs is essential, if equality of educational opportunity is to be translated from an empty phrase into living reality.

The Federal role must help pattern this objective while strengthening, not weakening, state and local government in the process. At th[illegible] time the Federal government must help support state and

local efforts to meet some of the most critical challenges confronting public and private education today. We have the ingredients; what we must seek is both the will and the wisdom to so put them together that the goals of governmental vitality and educational excellence are highly served. This is a task that demands the best of our political and educational leadership at this juncture of our national life.

The 1972 Alfred Dexter Simpson Lecture

FULL STATE FUNDING

James B. Conant

The Simpson Lecturer for 1971 was James E. Allen, Jr. He is no longer with us. I do not have to tell this audience of the impact of the tragic deaths of Mr. and Mrs. Allen on the educational community. So many of us were looking forward to what he would write after his year of thought and consultation with members of the Princeton faculty. Though I cannot claim to have been one of his closest friends, it does so happen that I had been in touch with him since 1967 about a problem which is today often in the headlines. I refer to the use of the local property tax as a basis for the financing of the public schools (grades k-12). I recall a number of conversations in which we considered what was then a heretical idea, namely to shift to the state all or almost all the responsibility for the financing of the schools. While *not* committing himself to a position which we would today call full state funding, he was most positive in his answers to questions leading in that direction.

If a man with his vast experience with school financing thought something radical should be done, who was I to hesitate about going against all I had heard during the years I had been associated with officers of the National Education Association and the American Association of School Administrators? So I abandoned the old slogans about local control and looked at the realities of the current situation. It turned out that Allen and I were not alone. Without our being aware of it, Arthur E. Wise of Chicago was writing his book,

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The Alfred Dexter Simpson Lecture is held in memory of the former Professor of Education at Harvard and founder of the New England School Development Council. Professor Simpson's central idea of 'Administration Broadly Conceived' is the focus of this lecture series, of which this is the twelfth lecture.

Rich Schools, Poor Schools: The Promise of Equal Educational Opportunity,[1] and developing the idea that the traditional method of financing was unconstitutional, a point of view which never occurred to me. I know Jim Allen was happy about the decision of the California court, for he wrote me to express his pleasure and to send me a copy. I feel certain he would have rejoiced at the Christmas Day news from Texas.

With this bit of personal history in mind, I am sure you will all agree that it is fitting that I take as my text a paragraph from Allen's Simpson Lecture of a year ago. Speaking of the role of the states, Allen said:

> Current conditions and future probabilities have made it impossible to continue to ignore the long apparent need for a drastically revised pattern of school finance. The general pattern now existing is more often restrictive than supportive. As the possibility of revisionary action comes nearer, the proposal for state assumption of all, or substantially all, of the local costs of elementary and secondary education is gaining support.

Tonight I shall present the case for the assumption by the state of *all* the costs. From what I have heard so far in this conference, I judge that logic is on the side of what I am presenting, but politics is not. I shall assume that sufficient evidence has been already placed before you to convince everyone that there is need for change in the way we finance our public schools (grades k-12). The article by Steven J. Weiss in the *New England Economic Review* for January/February of 1970 documents the need for change in the six New England states. The pamphlet sponsored by the U.S. Office of Education entitled "Future Directions for School Financing: A Response to Demands for Fiscal Equity in American Education" surveys the national scene. Alternative models are presented illustrating "possible ways in which state and local governments might approach the task of securing revenue and allocating it to support school districts." All involve the assumption that local taxes will continue to support local schools to some degree.

The doctrine of local control was very familiar to me. You might say I was brought up on it. I helped create the model set forth in the ideal picture of public schools of the future painted in "Education for All American Youth" published in 1944 by the Educational

[1] Arthur E. Wise, *Rich Schools, Poor Schools: The Promise of Equal Educational Opportunity*, Chicago: The University of Chicago Press, 1968.

Policies Commission of the National Education Association. I was then one of the members of the Educational Policies Commission. I can count myself a supporter of a prophecy about financing schools which reads in part as follows: "The state of Columbia [the ideal state we were describing] [had] adopted a state school finance system which equalized the tax burden between districts for a minimum educational program and provided ample latitude for each district to develop a maximum program in accordance with its resources and the vision and judgment of its citizens." State funds were to be used as a supplement to money raised by local property taxes. In essence what we described in 1944 was a foundation program.

I propose this evening to defend a totally different method of financing the public schools. It might be called full state funding or it might be called the creation of a system of state schools. Those who do not like this approach will probably be quick to speak of state schools and claim that any system of schools which is not financed in part by local taxes will be completely controlled from the state capitol. In the last few years, since I advocated the elimination of local fiscal support of elementary and secondary public schools, I have heard time and time again the statement that "local control of the public schools is essential and such control will vanish if the state foots all the bills." I venture to disagree. Let me quote again from Allen's Simpson Lecture:

> The principal objection that is raised to such a move [i.e., state assumption of costs] is that it would constitute a threat to local control. While there is room for reasonable concern, many circumstances and aspects of local control point to the possibility of breaking the tie between it and local financing not only without detriment to the exercise of true local control or to the quality of the education, but, indeed, with a strengthening of both.

The Proposed State System

The system of schools which I am tonight proposing would be financed by the state. There would be no local school taxes. The degree to which parents participated in making the critical decisions would depend on how the legislature arranged matters when it set up the new system. An essential part of what I am advocating would be the creation of many school districts, each with a school board elected by the voters of the district. Each board would have the right to appoint the district superintendent and the principals of the

schools. There would be as much power in the board including the power of innovation as is now usual in many states.

To what extent these new districts would be identical to the present districts as to the area of their jurisdiction would depend on what the legislature decided. Since no question of taxes would be involved, the boundary line of a district could be determined by educational considerations. I would hope that the new lines would be drawn to create as many districts with a heterogeneous population as possible. For example, the voters in a 100 percent black district might agree to a merger with a white district, thus making possible two truly comprehensive high schools.

A uniform salary scale would be essential. It would be the consequence of collective bargaining at the state level. In some states there might be adjustments to salary scales in different areas to make allowance for differences in the cost of living. Each school district represented by the elected chairman of the elected school board would be charged by the legislature with drawing up what I might call a "manpower budget," based on the needs of the schools in the district in question. The number of teachers in each grade and in each special area would be listed as proposed by a local agreement of the principals, the teachers' representative, and the superintendent. There would be no question of forcing the staff into a bureaucratic mold set by the officials in the state capitol. The dollar sign would not enter until the manpower budget of each district had been translated by the application of the salary scale.

While the eventual power would rest with the state legislature, the staff of the chief state school officer would play an important role. As Allen made evident in his lecture, strengthening the state structure is essential. For example, districts which had a larger percentage of disadvantaged children would be entitled to an increase in the teaching staff following guidelines determined by the state as a result of collective bargaining. The creation of a state budget to be presented by the governor to the legislature would follow from the application of the salary scale to the summation of the many "manpower budgets." Construction needs would be determined by state officials after consultation with the chairmen of the local boards.

The method of preparing budgets which I am suggesting could be applied on paper by a state which was thinking of abolishing local property taxes for schools but had come to no final decision. Whether a salary scale and manpower estimates could be drawn up before the state was committed is perhaps a question; the attitude of the teachers' organizations would have to be favorable. But at least a

rough estimate of the total of the state education budget for schools could be placed before the public.

The increase in the state budget would have to be met with new or increased state taxes. The history of the state in question would determine the most acceptable form of taxation. How the voter would respond to an enlarged sales tax or increased income tax is a question. The removal of the property tax would be most welcome. Whether the joy at this move would carry over into a discussion of state taxes in general, I leave to others to say.

The "Lighthouse" Schools

I have left to the last the consideration of a frequently heard objection to full state funding. In a word it amounts to a plea for the continuation of high cost schools in a few districts: such secondary schools as those to be found outside Chicago in Oak Park or Evanston, for example, or in parts of Westchester County, New York, which report high per pupil expenditures. These are the so-called "lighthouse" schools. They have been the result of the existence of school districts with a rich tax base in which the residents were willing to pay sufficient taxes to support extraordinarily costly schools.

The theory has been that the expensive schools stood as beacons lighting the way toward the kind of school which should exist in every district. It is argued that the traditional American method of financing the public schools allows the taxpayers in any district to agree on a tax rate which will go far to make their school a "lighthouse" school.

In recent years many questions have been raised to challenge this line of argument. Local property taxes have risen so rapidly that there is discontent even in wealthy "lighthouse" districts. Embarrassing questions are being asked. Why are per pupil costs so much higher in our district than in another? Is the difference a reflection of differences in the salary scale of teachers? (In part, it probably is.) Or is the pupil-teacher ratio the chief factor? If it is, what is the "right" ratio? In some "lighthouse" schools the curriculum of the higher grades is characterized by its scope. For example, in one high school I know of, the possibility exists of studying any one of five different foreign languages. Should all high schools aim at an equally wide offering?

Those who, like myself, support full state funding, are asked whether we propose that the expenditure per pupil throughout the

state should be at the level of the most expensive districts in the state. If not, how is the level to be determined? By some state official, the chief state school officer? I have tried in my exposition to answer, in part at least, these questions and the arguments of the proponents of the present system.

Let me repeat. I suggest that as regards teachers' salaries, one district would not differ from another; there would be a state-wide salary schedule. As regards the pupil-teacher ratio and the scope of the educational offerings, the decision for each school would be a consequence of a local discussion in which the chairman or president of the local elected school board and the local teachers' organization would play prominent parts. The making of a budget I have already described. The concept of "lighthouse" schools would disappear.

True Local Control

Under a system of full state funding, the office of chief state school officer would have much power. But to my mind the important decisions about schools would more likely be the result of informed discussion than has been the case historically in the United States. To be sure, a system of state-supported schools *might* be one in which all important matters were settled without citizen participation. On the other hand, it might be a system in which many more citizens had a voice than in most states at present. There is a great deal of mythology in all discussion of political arrangements. The myth which I am questioning is the one which demands a close coincidence between financing schools and managing them in the name of local control. I am in favor of cutting the connection without giving up the belief in the importance of keeping citizens involved in school affairs.

Any thorough discussion of "lighthouse" schools brings to the surface the difficult problem of the relation between cost per pupil and the quality of education. If we did not believe there was *some* connection, we would not be here tonight discussing the financing of the public schools. Yet we are all aware there is no one-to-one relation. The significance of the home and the neighborhood cannot be overlooked. Many factors which determine the educational opportunities in a district cannot be defined in quantitative terms.

There are some factors, however, which are directly related to money spent on formal education. It is these factors which could be made more nearly equal throughout a state: salaries, pupil-teacher ratio, scope of the elective offerings, physical facilities. Anyone who

has visited different school districts is aware of the existence of the many frustrated superintendents who would introduce changes throughout the schools in their districts if only the money were available. The burden of my remarks has been that if the public schools in a state were state-supported, the number of frustrated superintendents would be greatly decreased. Only experience will show whether my contention is correct. Hence my hope that some state will abolish local taxes for schools and adopt the principle of full state funding. I venture to believe that this conference is a step in that direction.

What I have ventured to suggest is a system by which state money is to be distributed for the education of children and youth who attend the public schools. To quote from Allen again, I am expressing the belief that "removing considerations of financing from the local level would make it possible to realize the true intent of local control — to allow both parents and school authorities to concern themselves with the real matters of education and to make decisions on the basis of educational worth."

GOVERNOR MILTON J. SHAPP'S PROPOSAL FOR A NATIONAL EDUCATION TRUST FUND

A. Edward Simon

Governor Shapp had hoped to attend this meeting and present to you personally his proposal for a national solution to the problems of financing public education. While education is a growing state problem, however, it is not the only problem, and the best intentions and desires of a governor must yield to the demands of his office. The intensity of Governor Shapp's interest in this conference and in the opportunity to present and discuss his proposal is reflected in the attendance also of Dr. Ernest H. Jurkat, personal economic advisor to the Governor. Dr. Jurkat is co-author with Governor Shapp of an economic blueprint for Pennsylvania entitled "New Growth, New Jobs, for Pennsylvania," published in 1962, in which the original elements of this plan were first presented.

The idea of a National Education Trust Fund was most recently presented by Governor Shapp at the White House early in June of 1971. That presentation was prompted by a continuing awareness of the desperate need for new approaches to the financial plight of education at the state and local levels. The fact that 56 percent of the total state budget now goes to education is indicative of Pennsylvania's concern.

It is easy to conceive of education simply as a *cost* of government. For many individuals, communities, and states, all or parts of our educational system are costs, for which benefits often seem remote or nonexistent because of population mobility, the concentration of special problems of education, and the present distribution of the tax burdens for education. Yet in our society education must be viewed as an important investment, vital to our national survival and to our hopes of a life that is meaningful and rewarding.

Mr. Simon is Special Assistant for Fiscal and Economic Affairs to Milton J. Shapp, Governor of the Commonwealth of Pennsylvania, and former Research Associate, Twentieth Century Fund Research Foundation. Governor Shapp would like to acknowledge the contributions of Mr. Ellis Harned and Mr. Martin Margolis of the Office of State Planning and Development in preparing the analyses of the implications and impacts of the National Education Trust Fund that appear in this paper.

We cannot find solutions to education's problems without a strong national approach to financing and the establishment of goals and priorities for education. The *Serrano* v. *Priest* decision before the California Supreme Court and the subsequent decisions in Minnesota, New Jersey, and Texas, dramatic as they are, serve only to highlight the demands for change in the system of financing education. To anyone aware of the shifting patterns of educational needs and the decreasing relevance of the value of local real estate to children's need for education, change has always appeared to be a matter of time.

We are at last faced with the immediate need for new solutions. And as important as financing will be to these solutions, the answer is not so simple as infusion of new money from the Federal pocketbook. A new solution must provide both money and equality of opportunity for education. In order to do this, it must establish policies and priorities that direct funds on the basis of need. The economics of real estate and urban/suburban/rural population concentrations currently mitigate against this. The political realities of this compartmentalization also mitigate against a state's contributions being directed effectively to the areas of greatest need. Economic measurement of the returns of education is difficult, but there is a real need to relate the cost of education to its benefits.

The National Education Trust Fund Concept

We propose the creation of a National Education Trust Fund as the vehicle for the massive investment in education that is required. The Fund would finance a portion of the costs of education at all levels, and those who benefited would replenish the Fund through a tax on their incomes throughout their working years.

The Fund could finance up to 90 percent of the cost of the crucial preschool years, 50 percent of the cost of primary and secondary education, 60 percent of the cost of post-secondary education, and 90 percent of adult basic studies and manpower retraining. These proportions could be changed to meet changing national priorities.

The National Education Trust Fund would advance money only for the direct costs of education and not for such purposes as school construction, since the aim of the Fund is to invest in people and not in buildings. Although the investment needed is large, the Fund could be started with \$4-\$8 billion, with 10-20 percent of all students participating at all levels of schooling. Participation could increase by 10-20 percent yearly so that the Fund would include all students after 5 to 10 years.

Our initial projections indicate that if the National Education Trust Fund were to begin operation in 1973, it would be contributing between $40 and $50 billion annually by 1980 to the direct cost of education. More than half of this would go to primary and secondary schools, and a third for higher education. These sums may seem staggering today, but they represent less than 3 percent of the projected gross national product in 1980. Nevertheless, they would provide for more than half of the overall direct cost of education in that year.

Since the benefits of education accrue largely to the individual in the form of increased income, status, and a desired life style, the National Education Trust Fund would require that repayment be made by the beneficiaries in proportion to their income and education. This would be done by means of an education tax which would vary according to earnings and years of schooling.

Provision could be made for an income floor below which no payment would be required. A ceiling would insure that the tax did not deter those from wealthy families from going on to higher education. Since the tax would be collected in conjunction with the Federal income tax, administrative effort would be minimized.

Repayment would be made when the beneficiary could best afford it — in his years of high earnings. In years when an individual had little or no income he would not be taxed. Similarly, exemptions could be provided for the aged and the infirm. It is significant to emphasize that the education tax would not constitute an additional tax. It would be a substitute for existing regressive taxes.

The Fund could be reimbursed from a combination of individual taxes and contributions from employers and general Federal revenues. One example developed in our preliminary analyses would work as follows: Assume that the Fund had been in full operation in 1970 on a pay-as-you-go basis with all adults aged 25 to 65 eligible to repay. In this example, employers would contribute one-third of the annual reimbursement to the Fund, and the Federal government would contribute at its current level of funding education — about 11.7 percent of all education expenditures. Assume further an income floor of $3,000 below which no individual would pay this tax, and an income ceiling of $50,000 above which the tax rate would no longer rise. In this example taxes are paid by individuals rather than families or households. A typical individual who had completed high school and reported an adjusted gross income of $6,600 (about the mean for employed individuals with that education in 1970) would pay a tax of 2.7 percent. A beneficiary who had

completed four years of college and earned $10,500 (about the mean for that education group) would pay 5.3 percent. Four years of graduate school would add about 1.8 percent more to this individual's tax. Note that the tax rate is progressive along two dimensions: income and years of schooling.

The Fund would be self-sustaining over the long run as revenues from the education tax replenished it. It would also be the vehicle for continuing Federal aid to education, and Federal money could be provided to the Fund to underwrite greater support of such programs as adult basic education and manpower retraining.

Operation of the Fund

This is how a National Education Trust Fund could operate. Money for primary and secondary education would be distributed to the school districts through the states, just as Federal education funds are now distributed. For all post-secondary education, it is proposed that students be advanced credit each year to cover a portion of the direct costs they incur. The credits advanced would be used to attend the institution of the student's choosing, subject only to minimal National Education Trust Fund accreditation. For college and university education the Fund would assist students through completion of one degree beyond the bachelor's level, limiting the amount of money made available to each student based on average costs of an education in different fields of study. Generally these would be within an overall limit of 60 percent of the cost of post-secondary education, but specific programs might be funded at higher or lower levels to reflect national priorities.

The National Education Trust Fund could be a major force for equalizing educational opportunity throughout the Nation. The gross inequities which characterize the present system of financing education largely could be overcome by channeling education money through the Fund. By decreasing the dependence of public education on the local property tax, the Fund would reduce the effects of the present wide variations in local effort and ability to support education, which have tended to make the quality of an individual's education dependent on the wealth of his family and neighbors.

The Fund could implement one of the key recommendations of the National Educational Finance Project regarding primary and secondary education: "THE NUMBER OF DOLLARS SPENT ON EDUCATION SHOULD BE BASED ON THE EDUCATIONAL NEEDS OF THE CHILDREN RATHER THAN THE WEALTH OF

THE SCHOOL DISTRICT."[1] To do this the Fund would have to develop a basis for assessing individual pupil needs and the costs of meeting these needs. This might be done by assigning weights to the per pupil costs of various types of education. The goal of equality of educational opportunity will be achieved only if funds are allocated on the basis of need.

Post-secondary school financing might also be based on a system of weights reflecting the costs of various types of training. In addition the Fund might give greater weight to critical needs such as doctors, thus encouraging more people to acquire an education in these fields. In any case the Fund would promote the philosophy that access to higher education be based on talent and motivation, and not on wealth.

Continued State Responsibility

Present responsibility for education, which rests with the states, the school districts, and the public and private institutions of higher education, would not be altered by the proposed National Education Trust Fund. Such a Fund need not be involved in the administration of education, nor would it be concerned with what is taught in the classroom. The Fund would, however, promote accountability on the part of educators, students, and citizens.

The Fund itself would determine what expenditures are needed on a per pupil basis to insure a minimum acceptable level of education. This would be the basis for its allocations and would serve as a guide to educators and citizens on the costs of education. The fact that students would bear a major share of the costs of their own education would encourage them to evaluate its relative costs and benefits. This should also encourage more efficient development of our education resources, since a student would be likely to remain in school only so long as he expected real benefits from his education.

National Education Trust Fund financing of 50 percent of the cost of primary and secondary education, along with continued state funding at present levels of about 40 percent, would mean that about 90 percent of the direct costs of education could be provided by non-local revenues. According to the Advisory Commission on Intergovernmental Relations, this would free about $16 billion to be used to finance local needs other than education. Some revenue could be returned to the citizens through local property tax reforms.

[1]National Educational Finance Project, "Future Directions for School Financing," Gainesville, Fla.: 1971, p. 8.

Education and American Society

The education of the American people needs a massive investment of resources which can be provided only by a national effort. At present education expenditures make up about 7 percent of our gross national product; in our evolving post-industrial society, education will have an ever more significant role. Furthermore, the benefits of education are not limited by school district or state boundaries.

The proposed National Education Trust Fund does not mean a Federal takeover of education; it means only that the Federal government will bring together the resources of the country at the national level to aid the states. The Fund would strengthen education in all the states. It would promote equal educational opportunity by helping to provide equal access to fiscal resources, and it would provide access to higher education to all with talent and motivation. The Fund actually should increase local control over the process of education. Local school boards which now spend more time than ever on fiscal matters – balancing budgets, raising taxes, selling bonds – would be able to concentrate on the central issues of education: how our children are learning and what they are learning.

There is little doubt that education at all levels will undergo major changes in the coming years. The question is whether these changes will be dictated by financial constraints or by our desire to make education more meaningful for students and for our society. Only if we resolve the financial issues will we be able to turn attention to the more important issues of education.

We are still hard at work gathering data, analyzing proposals for the National Education Trust Fund, considering alternatives, and arguing their implications. It is our hope that this conference will provide an opportunity to gather both support and constructive advice and criticism for this plan. We welcome your participation in what we hope will be a significant step forward in education.

THE CONTINUING RESPONSIBILITY OF EDUCATORS

Francis Keppel

As I understand it I am here to substitute for Mr. James A. Kelly, who is ill. Those of you who will look at the back of the program will discover that Mr. Kelly works for the Ford Foundation. I made some inquiry into what is really wrong with the poor fellow, and the truth is he has lost his voice from saying "no." Now following that line of reasoning I wonder whether Mr. Kelly might not have made some of the following negative statements as the result of this conference. Since they are so well trained down there to say "no," I shall presume he thinks in those terms.

First, I got the impression from this conference that the courts may *not* be well qualified either to raise taxes or to prepare legislation. So that while we honor the courts, we should not depend on them for detailed answers to our educational problems. However, I must add a more personal comment that I do not know if Mr. Kelly would have made because he is younger than I am. As I look back over the last 20 or 25 years it never occurred to me to get the lawyers and the courts on our side in arguing a political case before legislators. It took a "Wise" man — who happens to be here behind me — to get us thinking in those terms. Frankly, I think I was a little slow, because the facts with regard to the willingness of the court to enter such areas became clear after 1954-55.

Second, I got a very clear impression at this conference that local government does *not* hesitate to argue for an increase in state taxes, and state government does not hesitate to argue for an increase in Federal taxes, but local government does not argue in favor of increasing its own taxes. Now is that sense of progression correct? I have lived or worked at all these levels, one way or another, and they are all going to be angry whatever we do.

Mr. Keppel, Chairman of the Board of the General Learning Corporation, was Dean of the Graduate School of Education, Harvard University, 1948-62, U.S. Commissioner of Education, 1962-66, and former Assistant Secretary of Health, Education, and Welfare (for Education).

Third, Mr. Charles Benson made a point which he said surprised him a little when he got into New York (though I doubt it) – that full state funding will *not* fill the pail of the city at the start. And what he only implied, because he is an economist and not a political scientist, is that there are lots of votes in the cities.

Another "negative" which is really distressing for those who write the rhetoric before state legislatures and local bodies is that we can no longer honorably use the statement that educational productivity is directly related to class size. That is going to tone down the speeches for a long time – really a long time.

Next, local control of educational policies is not a myth, but Mr. Conant tells us it is a *must*, for management reasons and for sensible control of expenditures. I happen to agree with that entirely. However, we have surrounded the "myth," or rather the "must," with the concept of dollars or rather raising revenues, and said that if we *really* controlled the dollars, then we controlled the schools and then everything would be all right. The problem, of course, was that we really did not control the dollars. The myth was wrapped around raising the dollars when our attention and concern should have been devoted to the management of them, if I understand Mr. Conant's major point. And I think it is a major point to this conference. It worries me that many of us who have been working in the field of education for a good long time got caught up in that myth and did not realize this central point.

If you add all these negative statements together, I think one conclusion comes out fairly clearly from this conference. It looks to me as if educators had better not assume that actions of legislatures or courts are going to deal with the fundamental issue, which is the question of equity in the handling of children. The success of full state funding or any other scheme is going to depend on the extent to which the educators make it work. We have been remarkably lucky since 1945 in this country. We have had a system in which the middle class, in part because of their dissatisfaction with the quality of education provided their children, moved out of the cities. In one sense legislation encouraged this with laws in regard to housing, writing off interest payments on mortgages on the income tax, for example. Presumably, had we really wanted to stop the so-called "lighthouse" area system, we could have done it by tax laws making it much more difficult for individuals to move from cities to the suburbs and country. But the fact that we did not at least did this: the steam of discontent that was building up in many of our cities, and rural areas too, about the inadequacies of their schools, did not

blow up the kettle. People moved out. Apparently all this time we have had our "lighthouses" in the wrong places, however. We know now that the net result of that policy has been that we now have not steam but a boiling cauldron of discontent in the cities, but at least it took the heat off for the last 25 years – if I understand correctly what has been said around here.

Furthermore, we have had a quarter of a century in which, and I will put this in the snarliest way possible, we have in part been conducting a private school system under public auspices. Under this system the parents in a sense paid tuition by paying higher taxes on their houses. That is, in one sense you could say that the "lighthouse" schools were private school systems under public auspices. This is a very harsh and unpleasant thing to say, but it *is* one way of looking at what has actually gone on. And one need not apologize for it entirely.

Now if I understand what has been said by all the gentlemen before me, we cannot do that any more. Let us not debate whether we should have done it at all. We did it. Now the question is: do we have to run a real public school system with equality of support? And clearly the key issue is: can we as educators manage it so that the qualitative performance is comparable, slum to Newton? It would seem to me then that full state funding ultimately comes back to the educators. We cannot depend on the courts or the legislature to manage it. If we are really going to run what I have sardonically called a *real* public school system, rather than a system which is made up in part of private schools under public auspices, the qualitative control to assure reasonable equity of educational provisions will remain in the hands of the educators, not the courts and not the legislature. I see no way out of that. The ball then comes right back to us.

FINANCING PUBLIC SCHOOLS

Cambridge, Massachusetts

January 7 and 8, 1972

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